KIER News Release

For release on 23 March 2017 at 0700 hours

Kier Group plc, a leading property, residential, construction and services group, announces its results for the six-month period ended 31 December 2016

Results in line with expectations with a strong pipeline of growth opportunities

Underlying[3]			
	Six months ended 31 December 2016	**Six months ended 31 December 2015[1]**	***Change %***
Revenue[2]	**£2,004m**	**£2,016m**	***-1***
Profit from operations	**£56.5m**	**£54.4m**	***+4***
Operating margin	**2.8%**	**2.7%**	
Profit before tax	**£46.3m**	**£41.5m**	***+12***
Basic earnings per share	**38.9p**	**34.9p**	***+11***
Interim dividend per share	**22.5p**	**21.5p**	***+5***
Net debt	**£179m**	**£174m**	***+3***
Statutory			
	Six months ended 31 December 2016	**Six months ended 31 December 2015[1]**	***Change %***
Group revenue	**£1,996m**	**£1,973m**	***+1***
Profit from operations	**£47.0m**	**£18.9m**	***+149***
Profit before tax	**£34.9m**	**£4.3m**	***+712***
Basic earnings per share	**39.9p**	**7.9p**	***+405***

Financial information in the table above relates to continuing operations
[1] Restated to exclude the results of Mouchel Consulting following its disposal in October 2016 and include UK Mining in continuing operations
[2] Group and share of joint ventures
[3] Stated before non-underlying items – see note 3 to the Financial Statements.

Financials

- Order book of approximately £9bn reflecting strong pipeline conversion in regional building and highway services;
- Forecast revenue in Construction and Services 100% secured for year to June 2017; approximately 70% secured for year to June 2018;
- Underlying operating profit of £56.5m, 4% organic growth on 2015;
- Net debt of £179m ahead of expectations and expected to be maintained at 1x EBITDA for the full year;
- Portfolio simplification;
  - Profit on disposal of Mouchel Consulting of £39m;
  - Provision for winding down of the Caribbean operations and final account negotiations of £33m;
- Basic earnings per share of 38.9p (December 2015: 34.9p), up 11%, in line with Vision 2020 goals;
- Interim dividend of 22.5p up 5%; and
- On track with Vision 2020 goals.

Divisional progress

- Property
  - Strong pipeline of >£1bn; and
  - On course for >15% ROCE for the full year.

Continued…..

- Residential
  - Cross Keys Homes joint venture, announced today, providing up to £64m of further capital for future investment and underpins the delivery of the Residential division Vision 2020 goal of 15% ROCE;
  - Revenue increased by 4% to £169m, on track to deliver 2,200 units by year end with a strong forward sales position; and
  - On course for >10% ROCE for the full year.
- Construction
  - Underlying operating profit up 19% to £20.8m;
  - Operating margin of 2.0% (December 2015: 1.9%); and
  - Robust framework positions and opportunities for further growth in new sectors including aviation and industrials.
- Services
  - Operating margin of 4.8% (December 2015: 4.7%);
  - Awarded more than £300m of highways maintenance contracts in the period; and
  - Increased volume of revenue in highways in the second half.

Commenting on the results, Haydn Mursell, chief executive, said:
"Today's results reflect the ongoing financial and operational discipline employed across the Group and the strength of our flexible, integrated business model.

"The Group has a balanced portfolio of businesses and market leading positions in regional building, infrastructure and housing. Our continued focus on simplifying the portfolio and working with clients in a collaborative way is delivering further growth opportunities. Our clients recognise this approach as a key differentiator when working with Kier.

"The Group's breadth provides some resilience against economic uncertainty and we continue to shape Kier to focus on our core competencies. We are encouraged by the pipeline in the Property and Residential businesses and our healthy order books of approximately £9bn in the Construction and Services businesses. We remain on course to deliver our expectations for the full year and we are well positioned to achieve our Vision 2020 goals."

- ENDS -

There will be a presentation of the interim results to analysts at 0900 hours on 23 March 2017 at the London Stock Exchange. The presentation will be recorded and the video will be available later in the day on Kier's website.

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Chief Executive's review

I am pleased to announce interim results for Kier covering the six month period ended 31 December 2016. We have delivered revenue of £2.0bn (December 2015: £2.0bn), a 4% increase in underlying operating profit and an improvement in margins. These results highlight the continued progress of the Group, consolidating its leading positions in the regional building, infrastructure and housing markets, all of which have a good pipeline of opportunities. These markets now account for 90% of the Group's turnover.

Growth in these markets is supported by the UK Government's policy of investing in and upgrading the quality of the UK's infrastructure to drive economic growth both nationally and regionally. With our breadth of capabilities and our strong regional presence, we are able to take advantage of this whilst leveraging our track record of working with local authorities to address the fiscal challenges they face. Our integrated offer means we work with many clients on the provision of a range of essential services and offerings, many of which are complementary. Examples include the provision of strategic property advice to local authorities as well as construction and facilities management. I am pleased that we are making strides in delivering the integrated offer to our clients, with increasing revenue arising from clients that work with two or more businesses in the Group.

Today we have announced a joint venture ('JV') with Cross Keys Homes which enables us to recycle the capital employed in our private land bank into our mixed tenure business. The JV will provide up to £64m of cash for reinvestment into other areas of the business, targeting a return of 15% in line with the Group's hurdle rate and the transaction is expected to be cash generative upon completion. The JV allows us to take further advantage of the supply and demand imbalance in the housing market and play an active role in delivering on the UK Government's housing strategy.

We have invested in a new Oracle ERP system which has been rolled out to approximately 40% of the Group and will be substantially complete by December 2017. This establishes a robust platform that provides high quality and timely information and improved back office systems. We have also invested in the front-of-house systems in Workplace Services and Housing Maintenance to ensure that these businesses interact seamlessly with their clients' systems.

Portfolio simplification

Following the disposal of Mouchel Consulting in October 2016, which generated a profit on sale of £39m, we have continued to streamline the Group's activities to focus on our market leading positions. In the Caribbean, we are winding down our operations and now expect an exit from the region within the next six months. We continue to progress with a challenging project which has necessitated an additional provision of £33m.

In Hong Kong, we have substantially completed our two projects and final account discussions are ongoing. We expect to have a further update in the second half of this financial year. Within the environmental business, we successfully agreed terms to terminate the East Sussex contract four years early and consequently a £7m charge has been incurred in this respect. Advanced discussions are ongoing in relation to another contract which will see that contract finish early in 2019, further reducing the Group's exposure to recyclate pricing.

Safety

The safety of our people is of paramount importance and we have made excellent progress in the year by reducing the Group accident incidence rate to below 200, which is less than half the industry benchmark. In December 2016, BFK (BAM Nuttall Limited, Ferrovial Agroman (UK) Limited and Kier Infrastructure & Overseas Limited) were notified that the Health & Safety Executive intends to prosecute each company relating to three safety incidents on the Crossrail project during 2014 and early 2015. We have also incurred a fine of £1.5m as a result of an incident which took place in the May Gurney business, prior to Kier's ownership, in 2012. This fine arose under the new sentencing guidelines for health and safety offences which came into force in February 2016. It has been treated as a non-underlying item and represents the application of the new sentencing guidelines to historic incidents. We are currently assessing the impact of the HSE's investigations into other incidents which occurred before February 2016.

Vision 2020

We have made good progress with our Vision 2020 goals in the six month period. Our current financial position is strong, with net debt of £179m, ahead of expectations, allowing us to continue to invest in the future growth of the Group. We expect our net debt position to be maintained at 1x EBITDA for the full year and we remain confident of achieving our goal of double-digit profit growth on average each year to 2020.

Chairman Designate

We announced today that Phil White will be retiring as Chairman and standing down from the board with effect from the conclusion of the AGM on 17 November 2017. Philip Cox CBE, who is the Chairman of Drax Group plc and Global Power Generation and was previously Chief Executive Officer of International Power plc from 2003 to 2013, will join the board as a non-executive director and Chairman Designate on 1 July 2017. He will become Chairman with effect from the conclusion of the 2017 AGM. I would like to thank Phil White for his significant contribution to Kier in over 10 years on the board. As Chairman, he has overseen a period of significant growth and I am grateful for the support and advice that he has given to me as Chief Executive. I look forward to working with Philip Cox.

Outlook

Today's results reflect the ongoing financial and operational discipline employed across the Group and the strength of our flexible, integrated business model.

The Group has a balanced portfolio of businesses and market leading positions in regional building, infrastructure and housing. Our continued focus on simplifying the portfolio and working with clients in a collaborative way is delivering further growth opportunities. Our clients recognise this approach as a key differentiator when working with Kier.

The Group's breadth provides some resilience against economic uncertainty and we continue to shape Kier to focus on our core competencies. We are encouraged by the pipeline in the Property and Residential businesses and our healthy order books of approximately £9bn in the Construction and Services businesses. We remain on course to deliver our expectations for the full year and we are well positioned to achieve our Vision 2020 goals.

Property
The division includes property development and structured finance.

	Six months ended 31 December 2016 £m	Six months ended 31 December 2015 £m	*Change %*	*Year ended 30 June 2016[3] £m*
Revenue[1]				
Developments	43	43	-	135
Structured finance	7	32	*-78*	41
Total	**50**	**75**	***-34***	**176**
Operating profit[1]				
Developments	6.6	5.1	*+29*	20.2
Structured finance	0.3	2.1	*-86*	1.2
Total	**6.9**	**7.2**	***-4***	**21.4**
	31 December 2016 £m	**31 December 2015 £m**	***Change %***	**30 June 2016 £m**
Average capital[2]				
Developments	(117)	(111)	*+5*	(104)
Structured finance	(3)	10	*-130*	10
Total	**(120)**	**(101)**	***+19***	**(94)**

[1] Group and share of joint ventures.
[2] Equates to average net debt.
[3] Stated before non-underlying items. See note 3. Reported Property operating profit was £16.0m

- **A solid performance having taken advantage of market opportunities following Brexit vote**
- **Strong pipeline of >£1bn**
- **On course to deliver ROCE in excess of 15%**

Revenue was £50m (December 2015: £75m), generating an operating profit of £6.9m (December 2015: £7.2m). The second half of the year will include, as usual, a greater number of transactions which will produce an improved second-half result. The business maintained its solid performance with average capital employed of £117m invested in the developments business. The Group's strong cash flow, combined with the continued support of co-investors and funders, enabled the division to take advantage of market opportunities following the Brexit vote and increase the investment of Group capital.

The business remains focused on predominantly non-speculative pre-let development, utilising joint ventures to optimise the use of Group capital. Over 80% of the division's activity takes place outside London with opportunities spread across a range of sectors and regions which provides resilience to market fluctuations.

The division is on course to generate ROCE in excess of 15% for the full-year with a capital investment that is expected to peak at £180m. With improving occupier and investor sentiment, the business is pursuing an increasing number of opportunities and has a healthy pipeline of more than £1bn.

Developments
The developments business concentrates predominantly on non-speculative opportunities where elements of the schemes are pre-let, forward-sold or developed in joint venture, thereby reducing the risk and demands on the Group's capital. Development takes place across a broad range of market sectors including industrial, office, leisure and retail, as well as student accommodation.

One of the highlights of the period was the completion of the highway infrastructure works for the Watford Health Campus, in joint venture with Watford Borough Council, facilitating the next stage of development of the scheme. When completed, the scheme will include 375,000 sq ft of mixed-use development including a new Trade City development for which there is already strong occupier demand and 680 new homes, providing a residential opportunity for Kier. It is anticipated that this particular joint venture will generate further development opportunities with the council over the longer term.

Other significant schemes in the development portfolio include those in the retail and mixed-use sector, where construction commenced on the forward sold 50,000 ft retail park in Wakefield. An additional three new opportunities were secured across the north. Retail lettings remained strong in the period, as illustrated at the Reading Gateway site where construction is underway with Premier Inn, Wren Kitchens, Toys R Us, Burger King, Beefeater and Costa Coffee already secured as tenants. In December 2016 the 82 room Travelodge hotel in Sunderland was sold.

In the industrial sector, growth of the online retail market continues to drive demand for modern, high quality logistics space. Sites have been secured in Andover and Winsford with the potential for development of logistics units with access to key national transport routes. Demand for our Trade City and Logistics City products, suited to small and medium sized businesses, remained strong as the growth of online retailing continues.

In the office development sector, the 94,000 sq ft office in Sovereign Square, Leeds built by the Construction division, was forward-sold to Leeds City Council with completion in October 2016. Since the Brexit vote, we have taken advantage of market opportunities and strengthened our future pipeline with the acquisition of six schemes in Basingstoke, Glasgow, Leeds, Newcastle and two developments in Manchester. All of these schemes are in key city centre locations, have existing tenants or present strong opportunities in this market sector.

In February 2017, through Solum Regeneration, our joint venture with Network Rail, we completed construction of a forward-sold Waitrose store at Haywards Heath and have submitted a planning application at Bishop’s Stortford for over 600 residential apartments. Construction will commence in April 2017 at both Walthamstow and Twickenham to deliver new residential units.

Structured finance

The current portfolio of structured finance projects totals nine schemes, two at preferred bidder stage, one at the pre-construction stage, and the remainder in construction or operation. The committed equity investment stands at £35m (June 2016: £29m) of which £26m (June 2016: £15m) has been invested to date. The directors’ valuation, at a discount rate of 7.5% for PFI investments and variable appropriate rates for direct let student accommodation investments, is £45m (June 2016: £41m).

In August 2016, we acquired the remaining 50% share in the 264 room student accommodation project in Glasgow from Amber Infrastructure. The scheme is 100% let for the next academic year and bookings for the 2017/18 academic year are ahead of forecast. Construction continues on our scheme in Newcastle with practical completion due in summer 2017 ahead of the new academic year. Further student accommodation opportunities are in the pipeline. In the education sector, construction continues on the design, build, finance and maintain (‘DBFM’) of the £25m Ayr Academy in South Ayrshire and the £42m East Ayrshire Learning Campus DBFM scheme.

Property outlook

The sector diversity and regional spread of the division’s activities enables it to respond quickly to changes in the marketplace and we expect capital investment to increase towards £200m over the next two years in line with our Vision 2020 strategy. The existing structured finance portfolio continues to be selectively sold, as anticipated, and replaced with a pipeline of new market opportunities in sectors such as student accommodation coming to the fore.

With a focus on the delivery of a quality end product, strong occupier demand, the support of co-investors and access to the Group’s capital, the division has a pipeline of over £1bn and remains on course to generate a return on capital in excess of 15% for the full year.

Residential

Kier Residential, branded Kier Living, includes private house building and affordable mixed tenure housing partnerships.

	Six months ended 31 December 2016 £m	Six months ended 31 December 2015 £m	*Change %*	Year ended 30 June 2016[2] £m
Revenue				
Mixed tenure	87	79	*+10*	187
Private (Kier land)	82	83	*- 1*	166
Total	**169**	**162**	***+4***	**353**
Underlying operating profit[1]				
Mixed tenure	1.3	0.9	*+44*	6.0
Private (Kier land)	6.8	5.7	*+19*	14.3
Total	**8.1**	**6.6**	***+23***	**20.3**
	31 December 2016 £m	**31 December 2015 £m**	***Change %***	**30 June 2016 £m**
Average capital[1]				
Mixed tenure	(43)	(52)	*-17*	*(39)*
Private (Kier land)	(163)	(194)	*-16*	*(192)*
Total	**(206)**	**(246)**	***-16***	**(231)**
Land bank units	**3,058**	**3,302**	***-7***	**3,279**

[1] Equates to average net debt.

[2] Stated before non-underlying items. See note 3. Reported Residential operating profit was £19.5m

- **Revenue up 4% to £169m;**
- **Investment of £30m to grow the housing portfolio;**
- **Launch of new joint venture with Cross Keys Homes leveraging the historic land bank and improving ROCE;**
- **Strong forward sales position; on track to deliver over 2,200 homes for the full year; and**
- **Secured £42m grant from Homes & Communities Agency supporting 1,700 mixed tenure housing completions.**

Revenue was £169m (December 2015: £162m), up 4%, and operating profit was £8.1m (December 2015: £6.6m), up 23%, with 962 completions during the period. The division is on track to deliver over 2,200 units in the year with a greater weighting towards mixed tenure housing than previous years and has invested £30m in the period in its housing portfolio.

In affordable housing, the Group offers its clients a broad range of capabilities covering all stages of the housing development process, from feasibility and funding through to building handover, property sales and housing maintenance and management.

The division continues to benefit from the imbalance in the supply and demand in the UK housing market. The performance of the Residential division is aligned to the UK Government's housing strategy, set out most recently in the Housing White Paper with its focus on funding 400,000 new affordable homes by 2020. We are supportive of the Government's initiatives to stimulate the market such as Help To Buy and welcome developments which bring stability and certainty to the house buying market.

We have today announced a joint venture with Cross Keys Homes, a housing association and care services provider in the East of England. This joint venture, in which Kier holds a 90% shareholding (and 50% of the voting rights) enables us to leverage our historic land bank and will release up to £64m of cash for re-investment in new opportunities that will underpin the future growth of the Group. It enables our private house building business, on the transferring land bank, to operate as it does today but deliver a significantly improved return on capital. This latest joint venture builds on similar joint ventures across the division, including Northern Ventures launched in September 2016. The New Communities Partnership (NCP) joint venture, in conjunction with Cheyne Capital and The Housing Growth Partnership, continues to generate interest and discussions with a number of local authorities are ongoing.

Mixed tenure housing

Revenue in the mixed tenure business was £87m, up 10% on the previous year with average capital invested of £43m. 587 units were completed and the business remains on course for c1,500 completions by 30 June 2017 and is more than 90% secured for the full year. The business remains buoyant with very strong activity across the division's main UK regions; central, south west and northern.

In January the business secured one of the largest allocations of funds from the Housing and Communities Agency (HCA) Shared Ownership and Affordable Homes Programme. The £42m grant will be used to build over 1,700 new shared ownership homes in England over a four-year period. Work is currently ongoing to identify local authority and public sector land owners where the grant can be deployed. This award positions Kier as one of the country's leading public sector housing developers.

In the north, the mixed tenure market is particularly active following the recent HCA grant allocations. Northern Ventures has performed well and is delivering its first two joint venture developments in Stonegate and Riverbank Meadows with Together Housing Group (THG) and further schemes with Thirteen Group and THG are also underway. This joint venture is expected to deliver c500 units per annum by 2020. The northern operation has a number of other new mixed tenure schemes underway and is well placed on all the major frameworks in the region.

Private housing
Revenue in the private housing business was stable at £82m with improved operating profit of £6.8m. The business delivered 375 completions from Kier's own land bank and has a current forward order book that represents more than 85% of the units forecast for completion by 30 June 2017. The division remains on course to deliver c700 completions by the year-end and the rate of private sales over the period has remained good at a rate of approximately 0.7 units per trading site per week. Twelve active marketing suites are currently on site which will rise to seventeen by the year end. During the period 230 plots of land were purchased as the Group continues to increase the mix towards newer land purchased since 2008, and there is a good quality supply of permitted land.

Residential outlook
UK home buyer sentiment for new homes remains strong. The Cross Keys Homes joint venture enables the business to accelerate the recycling of the land bank capital to drive improved ROCE in line with its Vision 2020 goal of 15% ROCE. The recently published Housing White Paper supports further growth in the housing sector with an increased focus on the rented sector, the use of public sector land and increased powers for public bodies to accelerate development to service local housing needs. Our mixed tenure pipeline is more than £600m, giving good revenue visibility for the business over the next four years. Overall, the division has a strong forward sales position for 2017 and remains focused on improving its ROCE over the medium-term.

Construction

The Construction division comprises the UK building, civil engineering and international businesses, which undertake a wide range of building and infrastructure projects.

Continuing operations[1]	Six months ended 31 December 2016 £m	Six months ended 31 December 2015 £m	*Change %*	Year ended 30 June 2016[2] £m
Revenue[3]	1,017	945	*+8*	1,901
Operating profit[2]	20.8	17.5	*+19*	38.9
Operating margin	2.0%	1.9%		2.0%
	31 December 2016	30 June 2016		
Order book (secure and probable)	£3.3bn	£3.2bn	*+3*	

[1]Restated to exclude the results of Mouchel Consulting following its disposal in October 2016 and to include the results of UK Mining. See note 1
[2]Stated before non-underlying items. See note 3. Reported Construction operating profit is £25.0m (period to 31 December 2015: £5.9m, year ended 30 June 2016: loss of £3.2m)
[3] Group and share of joint ventures.

- **Record revenue of more than £1bn;**
- **Resilient operating margin of 2.0%;**
- **Continued expansion of framework positions; and**
- **Improved order book of £3.3bn.**

The Construction division delivered a strong performance during the period, growing revenue, increasing the order book and delivering a good cash performance. Revenues increased by 8% to £1,017m (December 2015: £945m) and operating profit increased by 19% to £20.8m (December 2015: £17.5m). Operating margins at 2.0% (December 2015: 1.9%), reflect strong risk management and the significant growth in regional building. The working capital environment remains stable and the current order book of £3.3bn represents all of the targeted revenue for the 2017 financial year.

Regional building

The regional building business remains the UK market leader, with the education, health and biotech sectors all providing a steady pipeline of work, while the aviation and industrial sectors create new opportunities. With increasing fiscal challenges facing the public sector, we are benefiting from the continuing trend of public sector clients procuring capital works through regional and national frameworks. Kier is the leading player on frameworks which provide good visibility of workload and we have secured places on new frameworks such as those launched by Cambridge and London universities. Other recent framework awards include;

- £4bn four-year NHS Procure 22 health framework
- £750m five-year Gatwick Airports construction framework
- £500m five-year University of Cambridge framework
- £150m three-year Aberdeenshire Council construction framework.

Our current frameworks, for example Procure 22, National and Regional Defence Infrastructure Organisation, the Scape National Minor Works framework, the Education Funding Agency regional and national frameworks, have provided a steady stream of opportunities. We are also encouraged by the pipeline of opportunities coming via the Ministry of Justice National framework, given Kier's experience in the custodial sector.

Work across the division was evenly split between private and public sectors. Kier continues to benefit from work in the education and health sectors which includes the private sector where £60m of new projects were awarded by a leading private sector health and well-being provider.

Infrastructure

The infrastructure business operates across a broad range of sectors including highways, rail, ports and coastal, aviation, energy, water and utilities and nuclear. Kier is a major supplier to the Hinkley Point C nuclear power station which received UK Government approval in September 2016 and work on the site is progressing well. A number of key projects were successfully completed in the period including C300 western running tunnels of the CrossRail project and we continue to make progress on the Farringdon station project. The Mersey Gateway project is scheduled for completion in March 2018 with the road crossing opening in September 2017. We await the outcome of the civil engineering packages, each worth about £1bn, from the HS2 project where Kier is part of the CEK joint venture with Carillion and Eiffage.

International
The Middle East business continues to make progress stimulated by the increase in spend prior to Expo 2020. In November, we completed the building and infrastructure works at Dubai Parks & Resorts and new contracts are well supported by UK Export Finance, underpinning our position as one of the leading providers of export credit financing in the UAE construction sector. Despite the continuing low oil price, our ability to provide such financing facilities for our customers is proving to be a key differentiator and we have a solid pipeline of opportunities.

In Hong Kong, the Admiralty Station contract was substantially completed and handed to MTR for opening in December 2016 and our other major project, C824, is nearing completion. Final account discussions are ongoing and we expect to have a further update in the second half of the financial year. In the Caribbean, we continue to wind down our operations and now expect an exit from the region within the next six months. We continue to progress with a challenging project which has necessitated an additional provision of £33m. This provision reflects supply chain issues on site, exacerbated by our exit from the region and a deterioration of more than 15% in the US$ foreign exchange rate with sterling. We do not anticipate this provision will impact on our forecast year end net debt position for this financial year.

Construction outlook
The Construction division continues to perform well with an order book of £3.3bn and more than £1.1bn of new work secured in the period. All work for the current financial year is secured, providing excellent visibility and a robust position. The division has a strong presence on frameworks and operates across the UK in a range of growing sectors such as aviation and biotech. In infrastructure, our division’s performance is stable with medium-term opportunities presenting a considerable pipeline, particularly in the power and transport sectors, albeit awards of key projects have been delayed. The division is aligned to the Government’s areas of focus, whether serving a growing population with schools and hospitals or delivering new infrastructure such as roads, rail and power stations. In line with our Vision 2020 strategy, the division’s revenue has continued to grow and the operating margin is improving.

Services

The division comprises infrastructure services (highways and utilities), property services (housing, FM and related services) and environmental services.

Continuing operations[3]	Six months ended 31 December 2016[2] £m	Six months ended 31 December 2015[3] £m	*Change %*	Year ended 30 June 2016[2] £m
Revenue[1]	**769**	**834**	***-8***	**1,656**
Operating profit	**37.2**	**39.1**	***-5***	**86.1**
Operating margin	**4.8%**	**4.7%**		**5.2%**
	31 December 2016	**30 June 2016**		
Order book (secure and probable)	**£5.6bn**	**£5.3bn**	***+6***	

[1] Group and *share of joint ventures*
[2] *Stated before non-underlying items. See note 3. Reported Services operating profit was £17.6m (period to 31 December 2015: £23.3m, year ended 30 June 2016: £5.6m)*
[3] *Restated to exclude the results of Mouchel Consulting following its disposal in October 2016.*

- **Revenue of £769m, delivering an operating margin of 4.8%**
- **Strong pipeline conversion in highways, underpinning an order book of £5.6bn**

The Services division revenue was 8% lower at £769m (December 2015: £834m). This was as a result of reduced expenditure in highways maintenance which has significantly increased in the first two months of 2017. As a result, operating profit was 5% lower at £37.2m albeit an operating margin of 4.8% (December 2015: 4.7%) was achieved.

Approximately 60% of the Services division's capabilities relate to the provision of infrastructure services in the highways and utilities sectors. When combined with the Group's construction capabilities, Kier is one of the leading providers of infrastructure services in the UK with an annual revenue of approximately £1.5bn.

The division has secured approximately £1bn of new work in the period and has an order book of £5.6bn (June 2016: £5.3bn) providing good visibility for 2017 and over the longer term.

Infrastructure Services – Highways

We continue to be responsive to changes in the strategic highways marketplace. Kier is benefiting from Highways England's change to the maximum cap on the percentage of the network any one provider can work on, and the increase in maximum areas from four to five. In the first half of the year, strategic highways awards included;

- £50m design service contract for Area 7 in the East Midlands;
- c£140m 15-year repair and maintenance contract for Area 13 covering Cumbria which is currently being mobilised for a 1 April 2017 start; and
- a two-year £50m maintenance services contract for each of Areas 6 and 8 covering East Anglia and the East of England.

Kier has also been awarded the five-year £40m design contract for Areas 1 and 2 covering the south-west. These awards reflect the team's focus on safety, performance and collaboration.

The local authority market remains active with a strong long-term order book and healthy pipeline of opportunities. However, council funding remains under pressure and the market is experiencing very competitive pricing. We are working with clients that are seeking a transformation in their service arrangements where we can generate value in partnership with them. During the period, significant contract awards included a five-year £270m extension to the Suffolk local authority highways contract and a £28m two-year extension to the Harrow local authority contract.

In Australia where the business operates in joint venture, it was awarded a £12m formal extension of the Perth Metro highways contract to July 2018. Further sizeable growth opportunities exist in Western Australia and New South Wales over the next twelve to eighteen months.

Infrastructure Services – Utilities

Following the AMP6 awards in the water sector, the Thames Water and Anglian Water contracts are progressing well. Extensions totalling £125m were awarded by Scottish Water Waste Water Alliance and Bournemouth Water. With the population growth in locations near London, new opportunities are coming to market, including a new £24m four-year contract for trunk mains work on the Affinity Water Mains framework which was awarded in summer 2016. We continue to pursue growth in the utilities sector and there are additional opportunities outside of the frameworks now coming to the market as well as extensions to existing contracts. We are already working with a number of clients preparing for the AMP7 bidding cycle.

In the power sector, a key new joint venture contract was awarded in the period with National Grid Infrastructure Protection Works, involving fencing and civil engineering security support across seventeen sites nationwide. This contract is currently being mobilised for commencement in April 2017. In addition, a one-year £18m extension was awarded by Western Power Distribution and a number of extensions are being discussed with Scotia Gas.

Property Services – Housing Maintenance
Local authority clients continue to be challenged by budget reductions, which are driving them to seek alternative approaches to managing their housing stock. As a result, we have commenced a pilot of a new technological solution which will assist housing clients to intelligently reduce spend on repairs and maintenance activities and enable them to meet the challenges of their reduced budgets. Housing associations and local authorities are also diversifying their portfolios in response to reduced future rents and are placing greater focus on the private rental sector where higher income can be achieved. In addition, housing associations continue to experience mergers which will create opportunities for the Group over the medium term.

Property Services – Kier Workplace Services
Kier Workplace Services, formed in July 2016, has made good progress on retaining and securing public sector works, while growing its private sector presence. During the period, awards totalling £74m have been secured. These include an £8m five-year contract providing facilities management to the prestigious Imperial War Museum (IWM) across its estate of museums and visitor attractions. The division is building a portfolio of clients in Wales including the £100m ten-year contract with Powys County Council for the provision of property related services (awarded on 10 March 2017). Other new contracts were secured with the London Borough of Lewisham, University College London, Kent County Council, Sussex Police, Norwood and the NHS Business Authority. Working alongside Kier Construction, the business is also providing ICT infrastructure in schools where new build and refurbishments are taking place and also providing technical services under the Scape framework.

Other
Within the environmental business, our focus remains on managing the impact of recyclate pricing as part of the contract performance. In the period, we successfully agreed terms to terminate the East Sussex contract and advanced discussions are ongoing in relation to another contract which will see these contracts finish early in 2019, further reducing the Group’s exposure to recyclate pricing. A non-cash non-underlying charge of £7m was recognised in respect of this.

Services outlook
The Services division continues to perform well with an order book of £5.6bn, demonstrating the scale and strength of the division, and providing good visibility for 2017, as well as over the longer term.

The commitment to maintaining long-term funding in the highways maintenance market remains strong and we are focused on responding to the changing market given our breadth of capability. Significant capital and maintenance spend is forecast and both the strategic and local authority highways businesses have a healthy pipeline of opportunities. We believe our success in collaborative procurement positions us well. The outlook in Australian highways remains positive with significant expenditure on new and improved infrastructure. In utilities, we are pursuing growth with further opportunities in the telecoms and power sectors.

Local authority funding remains under pressure and we are working with clients to support them in their housing maintenance service transformation programmes. Our property service businesses are adapting to changes in clients’ budgets and are delivering more intelligent, broader solutions to allow more efficient management of our clients’ assets. All of this means the division is on track with its Vision 2020 goals.

FINANCIAL REVIEW

Summary of underlying results
The Group has performed well in the six month period ended 31 December 2016, in line with management expectations. Group revenue for the six months was stable at £2.0bn (December 2015: £2.0bn). The Group's underlying operating profit for the period was £56.5m (December 2015: £54.4m), an increase of 4%.

Central costs increased 3% to £16.5m (December 2015: £16.0m). The establishment of the Group finance shared service centre contributed to the increase however this has been partly mitigated by the delivery of synergy savings generated as a result of the integration of Mouchel.

Net financing costs
Underlying net financing costs totalled £10.2m (December 2015: £12.9m). The decrease was driven by lower cash interest costs and lower pension costs.

Profit before tax
Underlying profit before tax at £46.3m (December 2015: £41.5m) benefitted from the lower financing costs noted above and represents an increase of 12%.

Reported profit before tax of £34.9m (December 2015: £4.3m) includes non-underlying items, predominantly relating to the disposal of Mouchel Consulting and the winding down of the Caribbean operations.

Taxation
The underlying tax charge for the period of £8.5m (December 2015: £7.9m) represents an effective corporation tax rate of 18% (December 2015: 19%), assisted by the continuing use of capital efficient joint venture structures in the Property division.

Discontinued operations
Following the sale of the Mouchel Consulting business in the period, the results of this business have been classified as discontinued operations in the current and prior periods, as described in note 10a. As a sale on acceptable terms could not be agreed, the results of the UK mining business have been classified as continuing in the current and prior periods.

Earnings per share
The underlying basic earnings per share from continuing operations of 38.9p (December 2015: 34.9p), has increased by 11%.The average number of shares in issue was 96m (December 2015: 95.3m) with the increase driven by the uptake of the scrip dividend during the period.

Cash flow
Operating cash inflows before the movement in working capital and after income from joint ventures totalled £70m (December 2015: £67m) and represent 124% of operating profit. Working capital before investment in Property and Residential was a modest outflow of £28m (December 2015: £18m outflow) which represents normal seasonal cash flow and is expected to reverse positively in the second half.

Retirement benefit obligations
Kier operates a number of defined benefit pension schemes. At the year end the reported deficit, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £68m after deferred tax (June 2016: £72m).

The Group is progressing discussions with the pension scheme trustees in respect of the ongoing deficit reduction contributions. Negotiations are expected to conclude prior to the prior end.

Non-underlying items
The Group has recognised a net pre-tax credit of £2m in respect of the following items. These are set out in detail in note 3 and include:

- Disposal of Mouchel Consulting. On the 12th October 2016 the Group announced the disposal of Mouchel Consulting, as part of the ongoing portfolio simplification process for £75m generating cash proceeds of £66m and a profit on sale of £39m;
- Closure of the Caribbean operations. In the Caribbean we are winding down our operations with a final account settlement being delayed and project completion is expected in the next six months. An additional provision of £33m has been taken in this respect. Cash flows have been reflected in our

December balance with minimal net cash movement anticipated in the second half as a result of robust working capital performance across the Group;

- The Group has made a provision of £1.5m for additional costs in relation to historic HSE fines following revised sentencing guidelines that came into effect in February 2016. Where historic investigations remain outstanding, management has disclosed a contingent liability; and
- Other non-underlying items, which are wholly non-cash in nature, include a £6m gain from the curtailment of one of the acquired Mouchel pension schemes, a £7m charge following the agreement to terminate an Environmental contract four years early and a £1.4m charge as a result of the closure of non-construction activities in Saudi Arabia.

Net Debt

The Group net debt balance as at 31 December 2016 of £179m (December 2015: £174m) includes the net proceeds from the disposal of Mouchel Consulting (£66m) and the investment of £98m since 1 July 2016, predominantly in the Property and Residential divisions and ongoing investment in IT systems. The average month-end net debt position was in line with the prior year at £300m (31 December 2015: £280m). We expect to maintain a net debt to EBITDA ratio of 1.0x at 30 June 2017.

Order Book

The order book of £8.9bn grew 5%, adjusting for the sale of Mouchel Consulting. Growth was driven by strong pipeline conversion in both Construction and Services, particularly in regional building and highway services.

Dividend

The Board is pleased to announce an interim dividend of 22.5p (2015: 21.5p), up 5%, reflecting the Board's confidence in the Group and the available distributable reserves of £120m as at 31 December 2016. This will be paid on 19 May 2017 to shareholders on the register at the close of business on 31 March 2017. As an alternative to the cash dividend, shareholders will be offered the option to participate in a Dividend Reinvestment Plan (DRIP). The DRIP replaces the scrip alternative that was previously available to shareholders. Shareholders will be invited to submit their instructions to participate in the DRIP in respect of the interim dividend by 5.30pm (London time) on Friday 21 April 2017.

Principal risks and uncertainties

The principal risks and uncertainties continue to be those which are set out on pages 27 – 31 of the Group's annual report and accounts for the year ended 30 June 2016.

- E N D S -

Cautionary statement

Consolidated income statement

Kier Group plc
Interim Management Report and Financial Statements for the six months ended 31 December 2016

For the six months ended 31 December 2016

				Unaudited 6 months to 31 December 2016			Unaudited 6 months to 31 December 2015[2]			Year to 30 June 2016[2]
Continuing operations	Notes	**Underlying items[1] £m**	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m
Revenue[3]										
Group and share of joint ventures	2	**2,004.2**	**5.4**	**2,009.6**	2,015.5	0.3	2,015.8	4,086.1	3.6	4,089.7
Less share of joint ventures	2	**(14.0)**	**-**	**(14.0)**	(42.8)	-	(42.8)	(98.3)	-	(98.3)
Group revenue		**1,990.2**	**5.4**	**1,995.6**	1,972.7	0.3	1,973.0	3,987.8	3.6	3,991.4
Cost of sales[4]		**(1,805.6)**	**(50.8)**	**(1,856.4)**	(1,797.8)	(10.8)	(1,808.6)	(3,605.7)	(29.4)	(3,635.1)
Gross profit		**184.6**	**(45.4)**	**139.2**	174.9	(10.5)	164.4	382.1	(25.8)	356.3
Administrative expenses[5]		**(133.3)**	**(1.4)**	**(134.7)**	(125.7)	(25.0)	(150.7)	(257.8)	(122.7)	(380.5)
Share of post-tax results of joint ventures		**3.4**	**-**	**3.4**	2.6	-	2.6	14.2	-	14.2
Profit on disposal of subsidiaries and joint ventures		**1.8**	**37.3**	**39.1**	2.6	-	2.6	2.6	-	2.6
Profit/(loss) from operations	2	**56.5**	**(9.5)**	**47.0**	54.4	(35.5)	18.9	141.1	(148.5)	(7.4)
Finance income		**1.0**	**0.1**	**1.1**	0.6	-	0.6	0.8	-	0.8
Finance cost		**(11.2)**	**(2.0)**	**(13.2)**	(13.5)	(1.7)	(15.2)	(25.5)	(2.8)	(28.3)
Profit/(loss) before tax		**46.3**	**(11.4)**	**34.9**	41.5	(37.2)	4.3	116.4	(151.3)	(34.9)
Taxation	5	**(8.5)**	**12.3**	**3.8**	(7.9)	11.5	3.6	(20.9)	32.1	11.2
Profit/(loss) for the period from continuing operations		**37.8**	**0.9**	**38.7**	33.6	(25.7)	7.9	95.5	(119.2)	(23.7)
Discontinued operations										
Profit for the period from discontinued operations	10	**0.2**	**-**	**0.2**	2.2	-	2.2	6.9	-	6.9
Profit for the period		**38.0**	**0.9**	**38.9**	35.8	(25.7)	10.1	102.4	(119.2)	(16.8)
Attributable to:										
Owners of the parent		**37.6**	**0.9**	**38.5**	35.4	(25.7)	9.7	101.6	(119.2)	(17.6)
Non-controlling interests		**0.4**	**-**	**0.4**	0.4	-	0.4	0.8	-	0.8
		38.0	**0.9**	**38.9**	35.8	(25.7)	10.1	102.4	(119.2)	(16.8)
Earnings per share										
Basic earnings per share										
From continuing operations	7	**38.9p**	**1.0p**	**39.9p**	34.9p	(27.0)p	7.9p	99.5p	(125.2)p	(25.7)p
From discontinued operations	7	**0.2p**	**-**	**0.2p**	2.3p	-	2.3p	7.2p	-	7.2p
Diluted earnings per share										
From continuing operations	7	**38.8p**	**0.9p**	**39.7p**	34.7p	(26.9)p	7.8p	99.5p	(125.2)p	(25.7)p
From discontinued operations	7	**0.2p**	**-**	**0.2p**	2.3p	-	2.3p	7.2p	-	7.2p

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Prior period comparatives have been restated to reflect the reclassification of UK Mining as continuing operations and Mouchel Consulting as discontinued operations.
[3] Non-underlying revenue relates exclusively to UK Mining operations.
[4] Non-underlying cost of sales relates to UK Mining operations and provisions for Caribbean operations and Environmental Services contracts.
[5] Non-underlying administration expenses includes £5.4m release of provision of UK Mining.

Consolidated statement of comprehensive income

For the six months ended 31 December 2016

	Unaudited 6 months to 31 December 2016 £m	Unaudited 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Profit for the period	**38.9**	**10.1**	**(16.8)**
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**-**	(0.2)	(0.1)
Fair value gain on cash flow hedging instruments	**5.6**	7.0	18.5
Fair value movements on cash flow hedging instruments recycled to the income statement	**(9.6)**	-	(17.7)
Deferred tax on fair value movements on cash flow hedging instruments	**0.7**	(1.4)	(0.2)
Foreign exchange gains on long-term funding of foreign operations	**6.4**	2.4	9.6
Foreign exchange translation differences	**(2.1)**	-	(1.1)
Total items that may be reclassified subsequently to the income statement	**1.0**	**7.8**	**9.0**
Items that will not be reclassified to the income statement			
Actuarial gains/(losses) on defined benefit pension schemes	**(12.9)**	7.3	47.6
Deferred tax on actuarial gains/(losses) on defined benefit pension schemes	**2.3**	(1.3)	(9.1)
Total items that will not be reclassified to the income statement	**(10.6)**	**6.0**	**38.5**
Other comprehensive income/(loss) for the period	**(9.6)**	**13.8**	**47.5**
Total comprehensive income for the period	**29.3**	**23.9**	**30.7**
Attributable to:			
Owners of the parent	**28.9**	23.5	29.9
Non-controlling interests	**0.4**	0.4	0.8
	29.3	**23.9**	**30.7**
Total comprehensive income attributable to equity shareholders arises from:			
Continuing operations	**28.7**	21.3	23.0
Discontinued operations	**0.2**	2.2	6.9
	28.9	**23.5**	**29.9**

Consolidated statement of changes in equity

For the six months ended 31 December 2016

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	**Attributable to owners of the parent £m**	Non-controlling interest £m	**Total equity £m**
At 30 June 2015	**1.0**	**408.5**	**2.7**	**41.7**	**(2.2)**	**(2.9)**	**134.8**	**583.6**	**1.8**	**585.4**
Profit for the period	-	-	-	9.7	-	-	-	**9.7**	0.4	**10.1**
Other comprehensive income	-	-	-	6.0	5.4	2.4	-	**13.8**	-	**13.8**
Dividends paid	-	-	-	(34.2)	-	-	-	**(34.2)**	(0.1)	**(34.3)**
Issue of own shares	-	8.6	-	-	-	-	-	**8.6**	-	**8.6**
Share-based payment charge	-	-	-	2.2	-	-	-	**2.2**	-	**2.2**
At 31 December 2015	**1.0**	**417.1**	**2.7**	**25.4**	**3.2**	**(0.5)**	**134.8**	**583.7**	**2.1**	**585.8**
(Loss)/profit for the period	-	-	-	(27.3)	-	-	-	**(27.3)**	0.4	**(26.9)**
Other comprehensive income/(loss)	-	-	-	32.5	(4.9)	6.1	-	**33.7**	-	**33.7**
Dividends paid	-	-	-	(20.5)	-	-	-	**(20.5)**	(0.3)	**(20.8)**
Issue of own shares	-	0.9	-	-	-	-	-	**0.9**	-	**0.9**
Share-based payments	-	-	-	3.4	-	-	-	**3.4**	-	**3.4**
At 30 June 2016	**1.0**	**418.0**	**2.7**	**13.5**	**(1.7)**	**5.6**	**134.8**	**573.9**	**2.2**	**576.1**
Profit for the period	-	-	-	38.5	-	-	-	**38.5**	0.4	**38.9**
Other comprehensive (loss)/income	-	-	-	(10.6)	(3.3)	4.3	-	**(9.6)**	-	**(9.6)**
Dividends paid	-	-	-	(41.2)	-	-	-	**(41.2)**	(0.1)	**(41.3)**
Issue of own shares	-	16.4	-	-	-	-	-	**16.4**	-	**16.4**
Share-based payment charge	-	-	-	0.4	-	-	-	**0.4**	-	**0.4**
Purchase of own shares	-	-	-	(0.6)	-	-	-	**(0.6)**	-	**(0.6)**
At 31 December 2016	**1.0**	**434.4**	**2.7**	**-**	**(5.0)**	**9.9**	**134.8**	**577.8**	**2.5**	**580.3**

The numbers in the table above are shown net of tax as applicable.

Consolidated balance sheet

At 31 December 2016

	Notes	**Unaudited 6 months to 31 December 2016 £m**	Unaudited 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Non-current assets				
Intangible assets		**793.5**	781.8	794.6
Property, plant and equipment		**90.2**	111.8	99.3
Investment in joint ventures		**130.3**	106.9	129.8
Deferred tax assets		**21.6**	3.1	7.3
Trade and other receivables		**28.9**	27.3	34.7
Non-current assets		**1,064.5**	1,030.9	1,065.7
Current assets				
Inventories		**722.5**	626.4	675.9
Trade and other receivables		**522.5**	567.3	523.0
Corporation tax receivable		**1.0**	-	-
Other financial assets	12	**23.1**	5.4	18.1
Cash and cash equivalents	8	**287.8**	121.9	186.7
Current assets		**1,556.9**	1,321.0	1,403.7
Assets held for sale as part of a disposal group		**-**	51.1	18.2
Total assets		**2,621.4**	2,403.0	2,487.6
Current liabilities				
Borrowings	8	**(44.4)**	-	-
Finance lease obligations		**(12.2)**	(8.1)	(13.5)
Other financial liabilities		**-**	(0.4)	(0.2)
Trade and other payables		**(1,344.4)**	(1,206.2)	(1,379.5)
Corporation tax payable		**-**	(6.0)	(6.0)
Provisions		**(10.8)**	(1.5)	(22.8)
Current liabilities		**(1,411.8)**	(1,222.2)	(1,422.0)
Liabilities held for sale as part of a disposal group		**-**	(59.1)	(13.7)
Non-current liabilities				
Borrowings	8	**(449.6)**	(295.8)	(303.2)
Finance lease obligations		**(7.5)**	(24.8)	(12.8)
Other financial liabilities	12	**(0.5)**	-	(1.1)
Trade and other payables		**(10.8)**	(9.9)	(13.2)
Retirement benefit obligations	4	**(81.8)**	(138.1)	(87.8)
Provisions		**(79.1)**	(67.3)	(57.7)
Non-current liabilities		**(629.3)**	(535.9)	(475.8)
Total liabilities		**(2,041.1)**	(1,817.2)	(1,911.5)
Net assets		**580.3**	585.8	576.1
Equity				
Share capital		**1.0**	1.0	1.0
Share premium		**434.4**	417.1	418.0
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**-**	25.4	13.5
Cash flow hedge reserve		**(5.0)**	3.2	(1.7)
Translation reserve		**9.9**	(0.5)	5.6
Merger reserve		**134.8**	134.8	134.8
Equity attributable to owners of the parent		**577.8**	583.7	573.9
Non-controlling interests		**2.5**	2.1	2.2
Total equity		**580.3**	585.8	576.1

Consolidated cash flow statement

For the six months ended 31 December 2016

	Notes	**Unaudited 6 months to 31 December 2016 £m**	Unaudited 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Cash flow from operating activities				
Profit/(loss) before tax – continuing operations		**34.9**	4.3	(34.9)
– discontinued operations		**0.2**	2.7	8.5
Non-underlying items		**(1.8)**	24.8	127.4
Net finance cost		**12.1**	14.6	27.5
Share of post-tax trading results of joint ventures		**(3.4)**	(2.6)	(14.2)
Normal cash contributions to pension fund in excess of pension charge		**1.3**	1.6	1.2
Equity settled share-based payments charge		**0.4**	2.2	5.6
Amortisation and impairment of intangible assets		**15.1**	13.2	27.8
Other non-cash items		**-**	-	(4.7)
Depreciation charges		**9.5**	15.3	21.8
Profit on disposal of joint ventures		**(1.8)**	(2.6)	(2.6)
Profit/(Loss) on disposal of property, plant and equipment and intangible assets		**(0.8)**	3.6	7.2
Operating cash inflows before movements in working capital		**65.7**	77.1	170.6
Deficit contributions to pension fund		**(15.7)**	(12.8)	(25.1)
(Increase)/decrease in inventories		**(46.5)**	111.4	57.8
(Increase)/decrease in receivables		**(27.6)**	(32.7)	8.7
(Decrease)/increase in payables		**(5.0)**	(107.8)	39.7
(Decrease)/increase in provisions		**(11.3)**	8.4	(3.7)
Cash (outflow)/inflow from operating activities before non-underlying items		**(40.4)**	43.6	248.0
Cash inflow/(outflow) from non-underlying items		**25.1**	(8.2)	(83.0)
Cash (outflow)/inflow from operating activities		**(15.3)**	35.4	165.0
Dividends received from joint ventures		**0.2**	0.4	2.8
Interest received		**1.1**	0.6	0.8
Income taxes paid		**(4.7)**	(1.3)	(1.8)
Net cash (outflow)/inflow from operating activities		**(18.7)**	35.1	166.8
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**1.1**	0.3	10.6
Proceeds from sale of joint venture		**32.5**	18.4	20.4
Purchases of property, plant and equipment		**(5.2)**	(8.1)	(14.1)
Purchase of intangible assets		**(19.6)**	(14.4)	(38.1)
Investment in joint ventures		**(32.4)**	(30.5)	(61.9)
Divestment in assets held for resale		**-**	9.3	29.8
Net cash used in investing activities		**(23.6)**	(25.0)	(53.3)
Cash flows from financing activities				
Issue of shares		**2.8**	4.3	4.5
Interest paid		**(10.3)**	(9.6)	(19.9)
Cash outflow incurred raising finance		**-**	-	(0.6)
Inflow from finance leases on property, plant and equipment		**8.3**	-	3.1
Inflow from borrowings		**181.2**	0.7	75.8
Finance lease repayments		**(15.0)**	(8.6)	(17.4)
Repayment of borrowings		**-**	(99.0)	(184.5)
Dividends paid to equity holders of the parent		**(27.6)**	(29.9)	(49.7)
Dividends paid to minority interests		**(0.1)**	(0.1)	(0.4)
Net cash generated/(used) in financing activities		**139.3**	(142.2)	(189.1)
Increase/(decrease) in cash, cash equivalents and overdraft		**97.0**	(132.1)	(75.6)
Effect of change in foreign exchange rates		**4.1**	-	8.3
Opening cash, cash equivalents and overdraft		**186.7**	254.0	254.0
Closing cash, cash equivalents and overdraft	8	**287.8**	121.9	186.7

Notes to the interim financial statements

1 Basis of preparation

Reporting entity
Kier Group plc (the Company) is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is Tempsford Hall, Sandy, Bedfordshire, SG19 2BD. The condensed consolidated interim financial statements (interim financial statements) for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

These interim financial statements do not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. Statutory financial statements for the year ended 30 June 2016 were approved by the Board of Directors on 21 September 2016 and delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 498 of the Companies Act 2006.

Statement of compliance
These interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at, and for the year ended, 30 June 2016.

These interim financial statements were approved by the directors on 22 March 2017.

Significant accounting policies
Except as described below, the accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its financial statements as at, and for the year ended, 30 June 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Estimates and financial risk management
The preparation of interim financial statements requires the directors to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by the directors in applying the Group's accounting policies and the key sources of uncertainty together with the Group's financial risk management objectives and policies were the same as those that applied to the financial statements as at, and for the year ended, 30 June 2016.

Going concern
The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence. Accordingly, the directors considered it appropriate to prepare the financial statements on the going concern basis.

Segmental reporting
The Group comprises four divisions, Property, Residential, Construction and Services and this is the basis on which the Group reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 5-12.

The accounting policies of the operating segments are the same as those of the Group. The Group evaluates segment information on the basis of profit or loss from operations before exceptional items, amortisation of intangible contract rights, interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Fair values
The Group's derivatives are measured at fair value. These are classified as level 2 financial instruments as the inputs are observable indirectly and are derived from quoted market prices at the balance sheet date.

Non-underlying items
Certain items are presented separately in the consolidated income statement as non-underlying items where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

Examples of material items which may give rise to disclosure as non-underlying items include gains or losses on the disposal of businesses, significant contract provisions, costs of restructuring and reorganisation of existing businesses, change in regulations, integration of newly acquired businesses, asset impairments and acquisition transaction costs and unwind of discounts. They also include reclassification of provisions in respect of such items.

Amortisation of acquired intangible assets is also treated as a non-underlying item so that the underlying profit of the Group can be measured on a comparable basis from period to period.

These are examples, and from time to time it may be appropriate to disclose further items as non-underlying in order to highlight the underlying performance of the Group.

Underlying operating profit is one of the key measures used by the Board to monitor the Group's performance.

Discontinued operations

The results of the Group's UK Mining operations have been reclassified to continuing operations from discontinued operations for the comparative periods as a buyer could not be found on acceptable terms. Consequently, at 31 December 2016, the assets and liabilities of the UK mining operations have been included in the relevant balance sheet categories rather than assets held for sale. Following its sale in October 2016, the results of Mouchel Consulting have been reclassified to discontinued operations in the comparative periods. See note 10a.

Notes to the interim financial statements
Continued

2 Segmental reporting

Six months to 31 December 2016	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	49.7	168.9	1,016.8	768.8	-	2,004.2
Less share of joint ventures	(14.0)	-	-	-	-	(14.0)
Group revenue	**35.7**	**168.9**	**1,016.8**	**768.8**	**-**	**1,990.2**
Profit						
Group operating profit/(loss)	2.0	8.1	20.8	36.9	(16.5)	51.3
Share of post-tax results of joint ventures	3.1	-	-	0.3	-	3.4
Profit on disposal of joint ventures	1.8	-	-	-	-	1.8
Underlying operating profit/(loss)	**6.9**	**8.1**	**20.8**	**37.2**	**(16.5)**	**56.5**
Underlying net finance (costs)/income[2]	(2.5)	(4.6)	2.7	(3.0)	(2.8)	(10.2)
Underlying profit/(loss) before tax	**4.4**	**3.5**	**23.5**	**34.2**	**(19.3)**	**46.3**
Amortisation of intangible assets relating to contract rights	-	-	(0.2)	(11.1)	-	(11.3)
Non-underlying finance costs	-	-	-	(1.9)	-	(1.9)
Other non-underlying items	-	-	4.4	(8.5)	5.9	1.8
Profit/(loss) before tax from continuing operations	**4.4**	**3.5**	**27.7**	**12.7**	**(13.4)**	**34.9**
Balance sheet						
Total assets excluding cash	223.9	330.5	631.7	433.0	714.5	2,333.6
Liabilities excluding borrowings	(42.7)	(113.6)	(630.9)	(540.4)	(246.8)	(1,574.4)
Net operating assets/(liabilities)	**181.2**	**216.9**	**0.8**	**(107.4)**	**467.7**	**759.2**
Cash and cash equivalents, net of borrowings	(120.2)	(189.6)	272.1	62.4	(203.6)	(178.9)
Net assets/(liabilities)	**61.0**	**27.3**	**272.9**	**(45.0)**	**264.1**	**580.3**

Six months to 31 December 2015	Property £m	Residential £m	Construction[4] £m	Services[4] £m	Corporate £m	Group[4] £m
Revenue[1]						
Group and share of joint ventures	75.0	162.4	944.6	833.5	-	2,015.5
Less share of joint ventures	(34.2)	-	(4.4)	(4.2)	-	(42.8)
Group revenue	**40.8**	**162.4**	**940.2**	**829.3**	**-**	**1,972.7**
Profit						
Group operating profit/(loss)	2.7	6.6	17.0	38.9	(16.0)	49.2
Share of post-tax results of joint ventures	1.9	-	0.5	0.2	-	2.6
Profit on disposal of joint ventures	2.6	-	-	-	-	2.6
Underlying operating profit/(loss)	**7.2**	**6.6**	**17.5**	**39.1**	**(16.0)**	**54.4**
Underlying net finance (costs)/income[2]	(2.5)	(5.5)	2.4	(0.8)	(6.5)	(12.9)
Underlying profit/(loss) before tax	**4.7**	**1.1**	**19.9**	**38.3**	**(22.5)**	**41.5**
Amortisation of intangible assets relating to contract rights	-	-	(0.2)	(11.0)	-	(11.2)
Non-underlying finance costs	-	-	(0.5)	(1.2)	-	(1.7)
Other non-underlying items	-	-	(11.4)	(4.8)	(8.1)	(24.3)
Profit/(loss) before tax from continuing operations	**4.7**	**1.1**	**7.8**	**21.3**	**(30.6)**	**4.3**
Balance sheet						
Total assets excluding cash	127.4	289.7	694.7	522.7	595.5	2,230.0
Liabilities excluding borrowings	(18.0)	(57.4)	(676.9)	(576.7)	(133.3)	(1,462.3)
Net operating assets/(liabilities) excluding assets held for sale[3]	**109.4**	**232.3**	**17.8**	**(54.0)**	**462.2**	**767.7**
Cash and cash equivalents, net of borrowings	(68.2)	(215.1)	249.9	(33.8)	(106.7)	(173.9)
Net assets/(liabilities) excluding assets held for sale	**41.2**	**17.2**	**267.7**	**(87.8)**	**355.5**	**593.8**
Assets/(liabilities) held for sale	8.9	-	(16.9)	-	-	**(8.0)**
Net assets/(liabilities)	**50.1**	**17.2**	**250.8**	**(87.8)**	**355.5**	**585.8**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Year to 30 June 2016	Property £m	Residential £m	Construction[4] £m	Services £m	Corporate £m	Group[4] £m
Revenue[1]						
Group and share of joint ventures	176.3	352.9	1,900.8	1,656.1	-	4,086.1
Less share of joint ventures	(78.2)	-	(10.3)	(9.8)	-	(98.3)
Group revenue	**98.1**	**352.9**	**1,890.5**	**1,646.3**	**-**	**3,987.8**
Profit						
Group operating profit/(loss)	6.8	20.3	37.2	85.6	(25.6)	124.3
Share of post-tax results of joint ventures	12.0	-	1.7	0.5	-	14.2
Profit on disposal of joint ventures	2.6	-	-	-	-	2.6
Underlying operating profit/(loss)	**21.4**	**20.3**	**38.9**	**86.1**	**(25.6)**	**141.1**
Underlying net finance (costs)/income[2]	(5.4)	(10.2)	1.8	(10.0)	(0.9)	(24.7)
Underlying profit/(loss) before tax	**16.0**	**10.1**	**40.7**	**76.1**	**(26.5)**	**116.4**
Non-underlying items:						
Amortisation of intangible assets relating to contract rights	(0.1)	-	(0.4)	(21.0)	-	(21.5)
Non-underlying finance costs	-	-	(0.4)	(2.4)	-	(2.8)
Other non-underlying items	(5.3)	(0.8)	(41.7)	(59.5)	(19.7)	(127.0)
Profit/(loss) before tax from continuing operations	**10.6**	**9.3**	**(1.8)**	**(6.8)**	**(46.2)**	**(34.9)**
Balance sheet						
Total assets excluding cash	177.0	314.6	627.0	539.9	624.2	2,282.7
Liabilities excluding borrowings	(41.7)	(111.8)	(690.5)	(631.7)	(136.6)	(1,612.3)
Net operating assets/(liabilities) excluding assets held for sale[3]	**135.3**	**202.8**	**(63.5)**	**(91.8)**	**487.6**	**670.4**
Cash and cash equivalents, net of borrowings	(77.2)	(177.2)	277.1	26.7	(148.2)	(98.8)
Net assets/(liabilities) excluding assets held for sale	**58.1**	**25.6**	**213.6**	**(65.1)**	**339.4**	**571.6**
Assets held for sale	-	-	4.5	-	-	4.5
Net assets/(liabilities)	**58.1**	**25.6**	**218.1**	**(65.1)**	**339.4**	**576.1**

[1] Revenue is stated after the exclusion of inter-segmental revenue. Inter-segmental pricing is determined on an arm's length basis.
[2] Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
[3] Net operating assets/(liabilities) represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.
[4] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting operations as discontinued.

Notes to the interim financial statements
Continued

Kier Group plc
Interim Management Report and Financial Statements for the six months ended 31 December 2016

3 Non-underlying items[1]

	Notes	Unaudited 6 months to 31 December 2016 £m	Unaudited[2] 6 months to 31 December 2015 £m	Year to[2] 30 June 2016 £m
Continuing operations				
Amortisation of intangible contract rights		**(11.3)**	(11.2)	(21.5)
Acquisition discount unwind		**(1.9)**	(1.2)	(2.4)
Other non-underlying items:				
Gain relating to the disposal of Mouchel Consulting	10a	**38.7**	-	-
Provision for closure of Caribbean operations and related contract final accounts		**(33.0)**		(23.1)
Increased fine for HSE incident arising from revised sentencing guidelines		**(1.5)**	-	-
Transaction and integration costs following the acquisition of the Mouchel Group		**-**	(15.5)	(49.9)
Provision relating to Environmental Services contracts and recyclate costs		**(7.0)**	-	(35.6)
Impairment of UK Mining business		-	(11.0)	(11.0)
Provision relating to Biogen investment		**-**	-	(5.0)
Construction Workers Compensation Scheme and Related costs		**-**	-	(4.5)
Other (Pension curtailment gain £6m less £1.4m loss on disposal of Saudi Comedat Ltd prior period: £1.7m gain relating to disposal of Fleet and Passenger Services)		**4.6**	1.7	1.7
Total other non-underlying items		**1.8**	(24.8)	(127.4)
Total non-underlying items from continuing operations		**(11.4)**	**(37.2)**	**(151.3)**
Associated tax credit		**12.3**	11.5	32.1
Credited/(charged) against profit for the period from continuing operations		**0.9**	**(25.7)**	**(119.2)**

[1] Exceptional Items.

[2] Prior period comparatives have been restated to reflect the reclassification of UK Mining in to continuing operations and Mouchel Consulting in to discontinued operations.

Notes to the interim financial statements
Continued

4 Retirement benefit obligations

The amounts recognised in the interim financial statements in respect of the Group's defined benefit schemes are as follows:

	Unaudited 6 months to 31 December 2016				Unaudited 6 months to 31 December 2015				Year to 30 June 2016			
	Kier Group Pension Scheme £m	**Mouchel Pension Schemes £m**	**May Gurney Pension Schemes £m**	**Total £m**	Kier Group Pension Scheme £m	Mouchel Pension Schemes £m	May Gurney Pension Scheme £m	Total £m	Kier Group Pension Scheme £m	Mouchel Pension Schemes £m	May Gurney Pension Schemes £m	Total £m
Opening deficit	**(23.5)**	**(58.3)**	**(6.0)**	**(87.8)**	(75.2)	(74.9)	(3.5)	(153.6)	(75.2)	(74.9)	(3.5)	(153.6)
(Charge)/credit to income statement [1]	**(0.9)**	**4.3**	**(0.2)**	**3.2**	(2.0)	(2.5)	(0.2)	(4.7)	(3.6)	(4.9)	(0.4)	(8.9)
Employer contributions	**8.4**	**6.2**	**1.1**	**15.7**	7.1	4.8	1.0	12.9	15.5	9.7	1.9	27.1
Actuarial (losses)/gains	**(4.5)**	**(8.0)**	**(0.4)**	**(12.9)**	(0.4)	7.9	(0.2)	7.3	39.8	11.8	(4.0)	47.6
Closing deficit	**(20.5)**	**(55.8)**	**(5.5)**	**(81.8)**	**(70.5)**	**(64.7)**	**(2.9)**	**(138.1)**	**(23.5)**	**(58.3)**	**(6.0)**	**(87.8)**
Comprising:												
Total market value of assets	**1,125.2**	**449.4**	**76.3**	**1,650.9**	893.8	354.6	65.4	1,313.8	1,065.4	422.8	72.4	1,560.6
Present value of liabilities	**(1,145.7)**	**(505.2)**	**(81.8)**	**(1,732.7)**	(964.3)	(419.3)	(68.3)	(1,451.9)	(1,088.9)	(481.1)	(78.4)	(1,648.4)
Net deficit	**(20.5)**	**(55.8)**	**(5.5)**	**(81.8)**	**(70.5)**	**(64.7)**	**(2.9)**	**(138.1)**	**(23.5)**	**(58.3)**	**(6.0)**	**(87.8)**
Related deferred tax asset	**3.5**	**9.5**	**1.0**	**14.0**	14.1	12.9	0.6	27.6	4.2	10.5	1.1	15.8
Net pension liability	**(17.0)**	**(46.3)**	**(4.5)**	**(67.8)**	**(56.4)**	**(51.8)**	**(2.3)**	**(110.5)**	**(19.3)**	**(47.8)**	**(4.9)**	**(72.0)**

[1] Amounts charged to income statement for Mouchel pension schemes for the period to 31 December 2016 include a £6m curtailment gain.

Notes to the interim financial statements
Continued

5 Taxation

The taxation charge for the six months ended 31 December 2016 has been calculated at 18% (June 2016: 18%, December 2015: 19%) of adjusted profit before tax, being profits adjusted for the Group's share in equity accounted joint ventures and excluding non-underlying items. This represents the estimated effective rate of tax for the year. Non-underlying items are taxed at their underlying rate.

			Unaudited 6 months to 31 December 2016			Unaudited 6 months to 31 December 2015[2]			Year to 30 June 2016[2]
	Underlying items[1] £m	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m
Profit/(loss) before tax	**46.3**	**(11.4)**	**34.9**	41.5	(37.2)	4.3	116.4	(151.3)	(34.9)
Adjust: tax on joint ventures included above	**-**	**-**	**-**	0.1	-	0.1	0.3	-	0.3
Adjusted profit/(loss) before tax	**46.3**	**(11.4)**	**34.9**	41.6	(37.2)	4.4	116.7	(151.3)	(34.6)
Current tax	**(11.4)**	**11.4**	**-**	(3.1)	3.1	-	(25.8)	21.8	(4.0)
Deferred tax	**2.9**	**2.1**	**5.0**	(4.9)	8.4	3.5	4.6	10.3	14.9
Overseas tax	**-**	**(1.2)**	**(1.2)**	-	-	-	-	-	-
Total income tax (expense)/credit in the income statement	**(8.5)**	**12.3**	**3.8**	(8.0)	11.5	3.5	(21.2)	32.1	10.9
Tax on joint ventures	**-**	**-**	**-**	0.1	-	0.1	0.3	-	0.3
Effective tax (charge)/credit	**(8.5)**	**12.3**	**3.8**	(7.9)	11.5	3.6	(20.9)	32.1	11.2
Rate	**18%**		**(11%)**	19%		(82%)	18%		32%

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Prior period comparatives have been restated to reflect the reclassification of UK Mining as continuing operations and Mouchel Consulting as discontinued operations

6 Dividends

Amounts recognised as distributions to equity holders in the period:	**Unaudited 6 months to 31 December 2016 £m**	Unaudited 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Final dividend for the year ended 30 June 2016 of 43.0 pence (2015: 36.0 pence)	**41.2**	34.2	34.2
Interim dividend for the year ended 30 June 2017 of 22.5 pence (2016: 21.5 pence)	**-**	-	20.5
	41.2	34.2	54.7

The interim dividend for the year ending 30 June 2017 of 22.5 pence per share (2016: 21.5 pence) has not yet been paid and so has not been included as a liability in these financial statements. The dividend totalling approximately £21.8m will be paid on 19 May 2017 to shareholders on the register at the close of business on 31 March 2017. A DRIP "dividend reinvestment plan" alternative will be offered.

Notes to the interim financial statements
Continued

7 Earnings per share

	Unaudited 6 months to 31 December 2016		Unaudited 6 months to 31 December 2015[1]		Year to 30 June 2015[1]	
	Basic £m	Diluted £m	Basic £m	Diluted £m	Basic £m	Diluted £m
Continuing operations						
Earnings (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**38.3**	**38.3**	7.5	7.5	(24.5)	(24.5)
Impact of non-underlying items net of tax:						
Amortisation of intangible assets - net of tax credit of £2.2m (2015: £2.2m)	**9.1**	**9.1**	8.9	8.9	17.6	17.6
Acquisition discount unwind - net of tax credit of £0.4m (2015: £0.2m)	**1.5**	**1.5**	1.0	1.0	2.0	2.0
Other non-underlying items[1] - net of tax credit of £9.7m (2015: £3.1m)	**(11.5)**	**(11.5)**	15.8	15.8	99.6	99.6
Earnings from continuing operations	**37.4**	**37.4**	33.2	33.2	94.7	94.7
Discontinued operations						
Earnings (after tax and minority interests), being net profit attributable to equity holders of the parent	**0.2**	**0.2**	2.2	2.2	6.9	6.9
Earnings from discontinued operations	**0.2**	**0.2**	2.2	2.2	6.9	6.9
	million	million	million	million	million	million
Weighted average number of shares	**96.0**	**96.0**	95.3	95.3	95.2	95.2
Weighted average impact of LTIP and Sharesave scheme	**-**	**0.4**	-	0.3	-	-
Weighted average number of shares used for earnings per share	**96.0**	**96.4**	95.3	95.6	95.2	95.2

Earnings per share	pence	pence	pence	pence	pence	pence
Continuing operations						
Earnings (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**39.9**	**39.7**	7.9	7.8	(25.7)	(25.7)
Impact of non-underlying items net of tax:						
Amortisation of intangible assets	9.5	9.4	9.3	9.3	18.5	18.5
Acquisition discount unwind	1.6	1.6	1.1	1.1	2.1	2.1
Other non-underlying items	(12.1)	(11.9)	16.6	16.5	104.6	104.6
Earnings from continuing operations	**38.9**	**38.8**	34.9	34.7	99.5	99.5
Discontinued operations						
Earnings (after tax and minority interests), being net loss attributable to equity holders of the parent	**0.2**	**0.2**	2.3	2.3	7.2	7.2
Earnings from discontinued operations	**0.2**	**0.2**	2.3	2.3	7.2	7.2

[1] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting operations as discontinued.

8 Cash, cash equivalents, overdraft and borrowings

	Unaudited 6 months to 31 December 2016 £m	Unaudited 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Net debt consists of:			
Cash and cash equivalents – bank balances and cash in hand	**287.8**	121.9	186.7
Borrowings due within 1 year	**(44.4)**	-	-
Borrowings due after 1 year	**(449.6)**	(295.8)	(303.2)
Cumulative FX impact of cross-currency hedging	**27.3**	-	17.7
Net debt	**(178.9)**	(173.9)	(98.8)

Notes to the interim financial statements
Continued

9 Share-based payments

The Group has established a Long-Term Incentive Plan (LTIP) under which directors and senior employees can receive awards of shares subject to the Group achieving targets. Further details of the LTIP were disclosed in the 2016 annual financial statements. 197,553 (2015: nil) shares have vested under the LTIP during the six months to 31 December 2016.

On 21 October 2016 grants were made under the LTIP as follows:

Shares granted	1,377,831
Share price at grant	£13.60
Exercise price	nil
Option life	3 years
Expected volatility	26.51%
Dividend yield	4.67%
Risk-free interest rate	0.24%
Value per option:	
TSR element (based upon a stochastic model)	609.1p
EPS and Net Debt:EBITDA element (based upon the Black-Scholes model)	1,182.3p

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based payments'.

The performance conditions of the EPS and Net Debt:EBITDA elements are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for these elements is based on the fair value factored by a 'true up' for the number of awards that are expected to vest.

10 Disposals

10a Disposal of Mouchel Consulting

On 12 October 2016, the Group disposed of its investment in Mouchel Limited, which, together with its subsidiaries, comprised the Mouchel Consulting business.

	£m	£m
Net sale proceeds	75.0	
Costs of disposal	(22.4)	
Other costs	(7.9)	
Net assets disposed of	(6.0)	
Profit on disposal		**38.7**

As Mouchel Consulting constitutes a separate major line of business for the Group, its results have been classified as discontinued. The results are as follows:

Result of discontinued operations	Unaudited 6 months to 31 December 2016 £m	Unaudited[1] 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Revenue	29.7	59.6	124.4
Operating costs	(29.5)	(56.9)	(115.9)
Operating profit	0.2	2.7	8.5
Finance costs	-	-	-
Profit before tax	0.2	2.7	8.5
Tax	-	(0.5)	(1.6)
Profit for the period from discontinued operations	0.2	2.2	6.9

Cash flows from discontinued operations	Unaudited 6 months to 31 December 2016 £m	Unaudited[1] 6 months to 31 December 2015 £m	Year to 30 June 2016 £m
Operating cash flows	0.2	2.2	6.9
Investing cash flows	-	-	-
Financing cash flows	-	-	-
Total cash flows	0.2	2.2	6.9

Notes to the interim financial statements
Continued

10 Disposals continued

10b Disposal of Saudi Comedat Company Ltd

On 13 July 2016, the Group disposed of its investment in Saudi Comedat Company Limited.

	£m	£m
Net sale proceeds	4.6	
Costs of disposal	(0.6)	
Net assets disposed of	(5.4)	
Loss on disposal		**(1.4)**

11 Related parties

There have been no other significant changes in the nature and amount of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2016.

12 Financial Instruments – Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the joint ventures' bank counterparties using mid-market mark to market valuations for trades between the joint ventures and those counterparties at the close of business on 31 December 2016.

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	23.1	-	23.1
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	(0.5)	-	(0.5)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	5.4	-	5.4
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	-	-	-

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	18.1	-	18.1
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	(1.1)	-	(1.1)

There were no transfers between Levels 1 and 2 during the period.

Notes to the interim financial statements
Continued

13 Guarantees and contingent liabilities

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint operations and joint ventures, entered into in the normal course of business.

Following recent changes in sentencing guidelines relating to breaches of safety, health and environmental legislation and regulation, the Directors considered whether it would be appropriate to include an additional provision in the financial statements relating to such breaches. The Directors concluded, however, that it was not currently possible to estimate with reasonable accuracy the amount of such a provision.

14 Post balance sheet events

On 23 March 2017 we announced a joint venture with Cross Keys Homes which enables us to leverage the capital from our private land bank into our mixed tenure business thereby improving the division's overall ROCE. This joint venture allows us to take further advantage of the supply and demand imbalance in the housing market and play an active role in delivering on the UK Government's housing strategy.

Responsibility statement of the directors in respect of the interim financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on 23 March 2017 on behalf of the Board

H J Mursell Chief Executive	**B E J Dew** Finance Director

Independent review report to Kier Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Kier Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim financial report of Kier Group plc for the 6 month period ended 31 December 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The directors of Kier are as listed in the Kier Annual Report for 30 June 2016.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
23 March 2017
London

Notes:
(a) The maintenance and integrity of the Kier Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.