KIER News Release

For release at 0700 hours on 15 March 2018

Kier Group plc, a leading property, residential, construction and services group, announces its results for the six-month period ended 31 December 2017

Consistent delivery in growing markets reflecting the strength and stability of the business

Underlying[3]	**Six months ended 31 December 2017**	**Six months ended 31 December 2016[1]**	***Change %***
Revenue[2]	**£2,154m**	**£2,001m**	***+8***
Operating profit	**£60.0m**	**£57.3m**	***+5***
Operating margin	**2.8%**	**2.9%**	
Profit before tax	**£48.8m**	**£47.1m**	***+4***
Basic earnings per share	**41.0p**	**39.7p**	***+3***

Statutory	**Six months ended 31 December 2017**	**Six months ended 31 December 2016[1]**	***Change %***
Group revenue	**£2,011m**	**£1,996m**	***+1***
Profit from operations	**£47.5m**	**£47.8m**	***-1***
Profit before tax	**£33.7m**	**£35.7m**	***-6***
Basic earnings per share	**28.6p**	**40.7p**	***-30***
Interim dividend per share	**23.0p**	**22.5p**	***+2***
Net debt	**£239m**	**£179m**	

Financial information in the table above relates to continuing operations.
[1] Restated to classify Biogen as discontinued.
[2] Group and share of joint ventures.
[3] Stated before non-underlying items – see note 3 to the Financial Statements.

Financials

- Revenue of £2,154m, up 8%; underlying operating profit of £60m, up 5%
- Forecast revenue in Construction and Services 100% secured for year to 30 June 2018; more than 65% secured for year to 30 June 2019
- Order book of approximately £9.5bn reflecting strong pipeline conversion in regional building and highways
- Net debt of £239m and expected to be less than 1x EBITDA at 30 June 2018
- Basic earnings per share of 41.0p (December 2016: 39.7p), up 3%
- Pension deficit reduced to £19m
- Interim dividend of 23.0p, up 2%
- On course to deliver double-digit profit growth in 2018 and on track with Vision 2020 goals

Divisional progress

- Property: Strong performance delivering good returns; 23% ROCE
- Residential: Revenue of £166m and ROCE increased to 11%
- Construction: Operating margin of 1.8% includes the final costs relating to the closure of the Hong Kong and Caribbean businesses; £1.1bn of awards during period with £700m secured on frameworks
- Services: Operating margin of 4.9% underpinned by strong contributions from highways and utilities businesses, including McNicholas

Commenting on the results, Haydn Mursell, chief executive, said:
"The Group is performing well. Our £9.5bn Construction and Services order book, combined with our £3.5bn pipeline in the Property and Residential divisions, provides good visibility of work over the medium term.

"The Group's performance reflects the strength of our business model and our financial and operational disciplines. Our portfolio of businesses provides balance and resilience and our approach to risk management is evident in the margin performance we have delivered over many years. We remain on course to deliver double-digit profit growth in 2018 and to achieve our Vision 2020 strategic targets."

- E N D S -

There will be a presentation of the interim results to analysts at 0900 hours on 15 March 2018 at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS and a live webcast: http://www.investis-live.com/kier/5a4e11001563731100f4de19/gjhg which will also be recorded and made available later in the day on Kier's website.

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Chief Executive's review

I am pleased to report a good first half performance with particularly strong contributions from the Property and Services divisions. We concluded our portfolio simplification programme during the period with the Group closing its operations both in the Caribbean and Hong Kong. Following its acquisition in July 2017, the McNicholas business is performing well. These actions have strengthened and simplified the structure of the Group and provide additional focus on our leading positions in key UK markets – Infrastructure Services, Buildings and Developments & Housing.

Our order books and development pipelines have improved following framework awards and contract extensions achieved in the period, providing good visibility beyond 2020.

Our net debt position is underpinned by our Property and Residential assets of c.£500m and is at a level for these divisions to achieve their Vision 2020 financial targets. The Group's pension deficit is now minimal and we continue to experience good operating cash conversion. We are therefore increasing the interim dividend by 2% to 23p.

Divisional performance

The Property division continues to perform ahead of its 15% ROCE target and the Residential division's return on capital is progressing towards its 15% target as the mixed tenure housing business matures.

Revenue in the Construction division decreased by 7%, mainly as a result of delays in the commencement of certain projects to the second half of the financial year. Although the Construction division's margins declined from 2.0% to 1.8% during the period, principally as a result of the effects of the final costs of closing the Caribbean and Hong Kong businesses (£7.7m), they remain robust and we expect that margins will increase in the second half of the financial year.

In the Services division, revenues were up 17%, underpinned by the highways business and the better than expected contribution in the first half from McNicholas, which includes the disposal of its plant business. Services margins remained stable at 4.9%.

With the Group increasingly focusing on its three leading market positions, we will move to reporting operations in these three key markets; Infrastructure Services, Buildings and Developments & Housing from 1 July 2018.

Leading market positions

Kier operates in robust markets, many of which are growing, that are underpinned by solid long-term fundamentals and have a strong pipeline of opportunities.

Kier is a UK leader in the infrastructure services and buildings markets with annual revenues approaching £4bn and is a top three contractor in the affordable and social housebuilding and maintenance market. These three market positions account for 95% of the Group's turnover and align to the Government's policy of investing in and upgrading the quality of the UK's economic and social infrastructure to drive economic growth both nationally and regionally. Increases in population and demand for technology are driving the need to improve the quality of key infrastructure in communities, whether investing in and upgrading the UK's transport infrastructure, the regeneration of our regional cities or the provision of more affordable housing, schools and hospitals.

We have a 7% market share of the £26bn UK infrastructure market. Capital works worth £17bn are expected to grow by 8% per annum. This provides significant scope for growth with both existing and new clients. Our current focus is principally on highways and utilities where we provide construction and maintenance capabilities to key clients such as Highways England and Thames Water. This mix of work, 80% of which is maintenance, provides us with a long order book.

The UK buildings market is substantial at £62bn and as the UK's leading regional builder, we are the largest player although with only a 3% market share. Our market share, combined with our strong regional presence across the whole of the UK, allows us to be selective in bidding for new work which underpins stable margins and the scope to pursue opportunities in emerging sectors for Kier such as defence, aviation and life sciences. Our facilities management (FM) business which serves similar sectors and clients, provides a complementary range of services allowing our clients the flexibility to procure both capital works and maintenance services. We are focused on increasing the flow of cross-selling opportunities from our building activities to FM and anticipate that FM revenue will increase as a result of this closer alignment.

The Developments & Housing activities reflect a combination of our property development, housing new build and maintenance activities. Increasingly, clients are seeking the added value and optionality that a strategic review of their property portfolios can bring to their long-term plans, particularly in light of the continued local authority funding pressures.

We remain focused predominantly on a strategy of non-speculative property developments outside of London with a focus on the quick turnaround of schemes. The business continues to benefit from regional confidence in a range of sectors including industrial and office and local authority partnerships and the strong demand for high quality student accommodation. This business is performing well and has a development pipeline of £1.5bn providing visibility of workload over more than five years. In addition, it has achieved the level of capital investment required to deliver its Vision 2020 profit targets. Therefore the average capital employed in the division will be maintained rather than increased further which will improve the Group's overall net debt position.

The housing sector remains a key Government priority with the continuing shortage of new housing supply and the published annual housing need totalling 300,000 homes. The Government housing agency, Homes England, has been reorganised and refocused to deliver on this goal.

Our residential business continues to perform well with its focus on capital efficiency and operating margin in order to deliver its Vision 2020 target of 15% ROCE. The business is well placed to address the severe shortage of affordable housing across the UK, with average private selling prices of c.£240k addressing the lower value end of the housing market – first-time buyers, and people with low or modest incomes. We also benefit from our ability to provide cost-effective maintenance services to housing clients such as local authorities who are facing increased budget pressures. Following the Grenfell fire, there is greater focus on property fire risk assessments and compliance-related activities and our housing maintenance business has been agile in responding to this demand. Together, our Property and Residential divisions have a £3.5bn pipeline providing good visibility of work over the medium-term.

Our approach

The Group's performance reflects the strength of our business model and our financial and operational disciplines. Our balanced portfolio of businesses provides resilience and flexibility and our approach to risk management is evident in the margin performance we have delivered over many years. We remain focused on continuing to develop and improve our approach to risk management to support the delivery of our strategy.

We seek to achieve market-leading positions to capitalise on our skills and expertise, and to work with clients where the focus is as much on qualitative measures such as safety and people, not just on price.

In terms of contract risk management, we primarily pursue new work under frameworks or lower risk contract models which are typical in our Infrastructure Services and Buildings businesses.

We have invested £80m in new technology over the past two years including a new Oracle ERP system, the roll-out of which is substantially complete, and have established a robust platform that provides high quality and timely information and improved back-office systems. This complements our continued investment in building information modelling systems (BIM) to support our activities in the Infrastructure Services and Buildings markets. The front-of-house systems investment delivered recently in our housing maintenance and FM operations ensures that these businesses can interact seamlessly with their clients' systems.

Collaboration remains a key quality that Kier brings to its client base and improving our knowledge of our clients' needs remains a priority. To further drive this and our business development focus, we have appointed a new Group Business Development Director. Key repeat clients such as Highways England, Thames Water and local authorities are increasingly working with more than one Kier business and procure multiple services from the Group, which represent more than 50% of revenue currently.

With social value and non-financial measures playing an increasing role in the bidding process, particularly on major frameworks such as the Scape Minor Works Framework, we continue to focus on this important aspect of our operations. We are pleased to report that our safety record continues to improve with an industry-leading accident incidence rate at December 2017 of below 100. Our customer experience score is high at 91%, meaning that 91% of our customers would recommend us to others.

Skills availability in the sector continues to be a concern over the longer term and following the launch of the Group's Shaping Your World campaign in September, which is targeted at 11 – 15 years olds, we currently have 350 Kier ambassadors visiting schools to talk about opportunities in our sectors. We are working with a number of our peers and other third parties in and out of the sector to develop the Shaping Your World campaign, which has now reached more than 5,000 students.

Outlook
The Group operates in three strong markets in which it holds leading positions: Infrastructure Services, Buildings and Developments & Housing. We have collaborative relationships with our key clients and the ability to offer multiple services to them. We believe this model provides considerable opportunities for further growth.

The Group is performing well. Our £9.5bn Construction and Services order book, combined with our £3.5bn pipeline in the Property and Residential divisions, provides good visibility of work over the medium term.

The Group's performance reflects the strength of our business model and our financial and operational disciplines. Our portfolio of businesses provides balance and resilience and our approach to risk management is evident in the margin performance we have delivered over many years. We remain on course to deliver double-digit profit growth in 2018 and to achieve our Vision 2020 strategic targets.

Property
The division focuses on property development.

	Six months ended 31 December 2017 £m	Six months ended 31 December 2016[1] £m	*Change %*	Year ended 30 June 2017[4] £m
Revenue[2]	**138**	**46**	***+200***	**182**
Operating profit[2]	**12.2**	**7.7**	***+58***	**25.8**
	31 December 2017 £m	**31 December 2016 £m**	***Change %***	**30 June 2017 £m**
Average capital[3]	**105**	**120**	***-13***	**113**
ROCE	**23%**	**13%**		**23%**

[1] Restated to classify Biogen as discontinued.
[2] Group and share of joint ventures.
[3] Equates to average net debt.
[4] Stated before non-underlying items. See note 3.

- **Strong performance delivering good returns; 23% ROCE;**
- **Continued focus on non-speculative development activity;**
- **UK coverage with >80% of activity outside London; and**
- **Healthy pipeline of approximately £1.5bn.**

Revenue was £138m (December 2016: £46m), generating an operating profit of £12.2m (December 2016: £7.7m), up 58%. The division remains focused on predominantly non-speculative, pre-let development, utilising joint ventures allowing us to deliver our pipeline without requiring additional funding. Over 80% of the division's activity takes place outside central London, reflecting its regional capability with opportunities spread across a range of sectors providing resilience to market fluctuations.

The division completed a significant number of transactions in the first half and has good visibility for the second half with average capital employed of £105m. It acquired seven new sites during the period adding to the £1.5bn pipeline of development activity over the next five or more years.

The Property division shares many of its clients with other parts of the Group, with its development activities generating more than £100m of annualised revenue for other Kier businesses. It is on course to generate ROCE in excess of 15% for the full-year with average capital investment expected to remain at current levels.

The business remains active in a number of key sectors such as industrial, office and retail and leisure. The industrial sector continues to remain buoyant with strong occupier demand and robust investor sentiment. It disposed of three completed developments as a portfolio in the period at a yield of 4.25%.

In the office sector, our development in Hammersmith and new schemes at Birmingham and Basingstoke secured a number of lettings. The 84,000sqft office scheme at York Street, Manchester, currently being refurbished by our Construction division, was sold on a forward funded basis. In November 2017, we signed a turnkey development agreement for a 58,000sqft headquarters for Scania in Milton Keynes. In February 2018, Kier was named preferred developer to deliver a 93,500sqft office for Durham County Council with construction due to commence in late 2018.

Good progress has been made at Watford Riverwell, in joint venture with Watford Borough Council. The first Trade City phase was sold in December 2017 and construction has commenced on the first residential phase comprising 95 homes. Terms were agreed in December 2017 for a 250-apartment care home and planning was submitted for the next residential phase comprising 407 units. It is anticipated this joint venture will generate development opportunities with the council over the longer term. Further mixed-use schemes were acquired during the period in Richmond (retail and office) and Bishops Stortford (retail, leisure and residential).

In Solum Regeneration, our 50/50 joint venture with Network Rail, the business continues to make good progress on the construction of 78 residential units at Walthamstow and 115 residential units in Twickenham, with marketing of both planned for launch this spring. Planning was submitted and achieved in Kingswood, Surrey with a subsequent land sale in December 2017. Planning was also granted at Guildford for a large mixed-use scheme comprising 438 residential units, a 713 space multi-storey car park, 30,000sqft office space, 30,000sqft retail space and a new station with a total gross domestic value in excess of £200m.

The student accommodation portfolio continues to progress with the opening of the 329-bed scheme in Newcastle. The 213-bed scheme in Glasgow entered its third year of operation and construction of the 423-bed scheme in Southampton continues with the scheme opening for the 2018/19 academic year. Letting on all three schemes is in line with our expectations and marketing has commenced for the new academic year 2018/19.

Property outlook
The Property division consistently performs well, having delivered ROCE in excess of 20% over the last three years. The sector diversity and regional spread of the division's activities enables it to respond quickly to changes in the marketplace. The historic structured finance portfolio has been replaced with a pipeline of new market opportunities in sectors such as student accommodation. We have achieved capital levels sufficient to achieve the division's Vision 2020 financial targets and therefore expect average capital to remain at current levels.

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 £1.5bn 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 2017 £m	Six months ended 31 December 2016 £m	*Change %*	Year ended 30 June 2017[3] £m
Revenue[1]				
Mixed tenure	**90**	87	*+3*	202
Private (Kier land)	**76**	82	*-7*	174
Total	**166**	**169**	***-2***	**376**
Operating profit[1]				
Mixed tenure	**1.7**	1.3	*+31*	6.7
Private (Kier land)	**7.0**	6.8	*+3*	16.1
Total	**8.7**	**8.1**	***+7***	**22.8**
	31 December 2017 £m	**31 December 2016 £m**	***Change %***	**30 June 2017 £m**
Average capital[2]				
Mixed tenure	**40**	43	*-7*	*39*
Private (Kier land)	**125**	163	*-23*	*160*
Total	**165**	**206**	***-20***	**199**
ROCE	**11%**	**8%**		**11%**
Land bank units	**2,693**	**3,058**	***-12***	**2,794**

[1] Group and share of joint ventures.
[2] Equates to average net debt.
[3] Stated before non-underlying items. See note 3.

- **Revenue of £166m and ROCE increased to 11%;**
- **On course for >10% ROCE for the full year and to deliver c.2,200 units; and**
- **Future pipeline of approximately £2bn providing visibility over more than 5 years.**

Revenue was £166m (December 2016: £169m) and operating profit was £8.7m (December 2016: £8.1m), up 7%, with 965 unit completions during the period. ROCE in the first half has improved to 11% (December 2016: 8%) as the division benefited from the Cross Keys Homes joint venture that was established in the final quarter of the prior financial year and an improving quality of land bank.

The continuing imbalance between supply and demand for new homes, a competitive mortgage market and a strong employment backdrop underpinned a robust performance. Consumer demand and confidence remain strong despite uncertainty around Brexit and the prospect of interest rate increases. The market continues to be competitive, with a shift towards public/private joint ventures reflecting the public sector need to generate greater returns from its available capital.

During the period, the division launched two new regions; the south and west of England, and southern, covering the west home counties outside London. Both operations are performing well.

Our focus in private sales is on affordable, competitively-priced homes with an average private sales price of c.£240k. In our private business, reservations and pricing levels are tracking well with sales rates at approximately 0.7 units per week per trading site. Government focus and incentives continue to assist the market, with Help To Buy involved in c.50% of sales. We have a strong pipeline of £2bn with identified sites, both private and mixed tenure, that put us in a well secured position through to 2022.

In the mixed tenure housing market, where Kier is one of the largest mixed tenure house builders, returns are improving and there is increasing interest in joint ventures from our clients to share capital and returns. Our joint ventures with Cross Keys Homes in the East of England and the Northern Ventures partnership with Together Housing continued to perform well.

We are also focused on providing maintenance services to some of our housing clients through our housing maintenance business (reported in the Services division commentary) as clients seek value from complementary services to assist with the budget pressures they face.

Residential outlook

The division continues to perform well and has achieved the level of capital investment required to deliver its Vision 2020 financial targets. The mixed tenure activities are becoming more land-led with a greater proportion of output as private units, reflecting the positive UK housing market. This backdrop, coupled with a growing business with a strong forward sales position, will see the business improve ROCE this year and to 2020.

Construction

The Construction division comprises the UK building, civil engineering and the Middle East operations undertaking a range of building and infrastructure projects.

Continuing operations	Six months ended 31 December 2017[2] £m	Six months ended 31 December 2016 £m[2]	*Change %*	Year ended 30 June 2017[2] £m
Revenue[1]	**949**	**1,017**	***-7***	**2,019**
Operating profit[1]	**16.7**	**20.8**	***-20***	**39.8**
Operating margin	**1.8%**	**2.0%**		**2.0%**
	31 December 2017	**30 June 2017**	***Change %***	
Order book (secure and probable)	**£4.7bn**	**£4.2bn**	***+12***	

[1]Group and share of joint ventures.
[2]Stated before non-underlying items. See note 3.

- **Operating margin of 1.8% (December 2016: 2.0%) reflects the final costs of closing the Hong Kong and Caribbean operations;**
- **£1.1bn of awards during period with £700m secured on frameworks;**
- **Assumed full responsibility for Highways England M6 junctions 16 – 19 Smart Motorways project and greater responsibility for the HS2 joint venture with Eiffage; and**
- **Increased order book of £4.7bn, up 12%.**

Revenues were £949m (December 2016: £1,017m) delivering an operating profit of £16.7m (December 2016: £20.8m). These results were impacted in particular by the final costs of closing the Caribbean and Hong Kong businesses which totalled £7.7m and delays in the commencement of certain projects to the second half of this financial year. Operating margins were consequently 1.8% (December 2016: 2.0%) and are expected to improve in the second half of the financial year. We continue to focus on the management of working capital and expect to see a continued improvement in the division's performance in the second half of the financial year. The current order book of £4.7bn represents all targeted revenue for the 2018 financial year.

UK Building

Our average project size in the UK Building business remains between £7m and £8m. Frameworks, both public and private, account for 70% of awards in the division and the Group secured all of its national frameworks retendered during the last year. £700m of awards were secured on frameworks during the period with places also secured on a number of new frameworks with an advertised value of £15bn. These include;

- The £8bn Education and Skills Funding Agency (ESFA) Construction Framework with Kier appointed to all lots applied for in the high-value and low-value bands across England;
- The £6bn LHC Schools and Community Building Framework covering England, Scotland and Wales;
- The £750m London Procurement Partnership Healthcare Framework with Kier appointed on all lots applied for
- The Aberdeenshire Council's £160m Social Housing Improvement Framework;
- The Defence Infrastructure Organisation (DIO) National Framework;
- The University of Strathclyde £250m construction framework.

The division holds strong positions in the education and health sectors. The ESFA framework, re-awarded in the period, generated over £100m of schemes and capital spending on education, including the tertiary sector, provides opportunities. In addition, £76m of Scape projects were awarded in the period. Kier was selected for ten healthcare projects, totalling £175m in the period. The division continues to pursue opportunities in the defence sector with the DIO National Framework being extended for an additional three years and further projects anticipated to come on stream shortly.

Major contract wins in the period included higher education awards totaling £113m, student accommodation contracts for the University of Warwick and Kaplan totaling £84m and a number of major project developments, including a £160m award for Public Health England.

Infrastructure

Given the higher risk profile of infrastructure contracts, the business is now increasingly focused on particular sectors and projects with a focus on highways, rail, utilities and power. The challenging Mersey Gateway bridge opened in October 2017 and is expected to complete later this calendar year.

Subsequently, we expect to resolve some claims relating to the project and negotiate the final account. The Crossrail Farringdon project remains on schedule to complete in 2018 and, following the award of the A13 contract in the first half, work has commenced on site.

In early February and after discussions with the Government and Highways England, the Group assumed responsibility for the Smart Motorway schemes on which it had been working in joint venture with Carillion. All employees, including apprentices, currently working on the schemes have transferred over to Kier and operations have been maintained. Work is well underway on the M6 motorway junctions 16–19 scheme with further projects coming on stream.

Kier and Eiffage are now 50/50 joint venture partners delivering two of the seven HS2 civil engineering packages, lots C2 and C3. All 51 Carillion employees, including apprentices, working on the CEK HS2 joint venture have been offered the opportunity to join Kier and Eiffage. The HS2 and Smart Motorway contracts are both performing well operationally and financially.

The rail sector attracts steady investment and continued Government support. Following the acquisition of McNicholas, we have expanded our capabilities in this sector and look forward to the opportunities arising from CP6.

International
The Group's international construction operations are focused in the Middle East. Against a backdrop of intense competition, we maintain a selective approach to bidding with the use of UK Export Finance, where possible. Our operations are focused on the delivery of existing projects including the Saadiyat Rotana hotel resort and villas, Nishmi Plot 35 and Barsha South residential projects, Bluewater Island Infrastructure project and the Dubai Arena.

Construction outlook
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. We continue to invest in new ways of working and modern methods of construction to improve the quality of our offer.

The second half of the year has started well with contract commencements currently robust, thereby supporting our full year revenue growth and margin expectations. The order book of £4.7bn positions the division well with all work for the current financial year secured and 65% secured for 2019, providing excellent visibility.

The division has a strong position on frameworks and new framework opportunities with a value of c.£2bn expected in the next six months. We have leading positions in growing market sectors including healthcare which is expected to benefit from an additional £4bn of investment following the recent publication of the National Infrastructure Pipeline.

Services

The division comprises Infrastructure Services (highways, utilities), Property Services (housing, FM and related services) and environmental services.

Continuing operations	Six months ended 31 December 2017[2] £m	Six months ended 31 December 2016[2] £m	*Change %*	Year ended 30 June 2017[2] £m
Revenue[1]	**901**	**769**	***+17***	**1,688**
Operating profit[1]	**44.4**	**37.2**	***+19***	**87.0**
Operating margin	**4.9%**	**4.8%**		**5.2%**
	31 December 2017	**30 June 2017**	***Change %***	
Order book (secure and probable)	**£4.8bn**	**£4.7bn**	***+2***	

[1] Group and share of joint ventures
[2] Stated before non-underlying items. See note 3.

- **Operating margin of 4.9% (December 2016: 4.8%);**
- **In negotiations for three-year extensions on Areas 3 and 9 highways contracts;**
- **Strong contributions from highways and utilities businesses; and**
- **McNicholas being integrated and performing well.**

The Services division revenue was £901m (December 2016: £769m), up 17%, driven by the highways business and the acquisition of McNicholas. Operating profit increased to £44.4m (December 2016: £37.2m), up 19% and operating margins were stable at 4.9% (December 2016: 4.8%). Excluding the McNicholas acquisition, turnover increased by 6% to £816m.

Approximately 67% of the Services division's revenue relates to the provision of infrastructure services in the highways and utilities sectors. The division has secured approximately £0.7bn of new work in the period and has an order book of £4.8bn (June 2017: £4.7bn) providing good visibility for 2018 and over the longer term.

Infrastructure Services – Highways

The Highways business is performing well and we remain the UK's leading provider of highways management and maintenance services.

During the period, we commenced work on Highways England Area 1 and 2 Design Services contracts, awarded in 2017. We are in negotiation for three-year extensions to our Area 3 and 9 highways contracts, underpinning the highways business to 2022 and providing stability to maintenance volumes over that time.

The Highways England Smart Motorway programme on the M6 junctions 16 – 19 is being delivered by Kier, with the Carillion joint venture team now having transferred to Kier.

The Highways England capital works programme is considerable and provides further growth opportunities for the highways business both now and beyond 2020. The funding for RIS1 remains stable and is anticipated to increase considerably as we move into RIS2. We continue to work with Highways England as it evolves its future operating model and anticipate there will be a move to greater design and delivery of schemes through the maintenance contracts, which aligns well with our skills and expertise.

In the local authority market, the Group will commence the £147m Shropshire County Council highways contract on 1 April 2018 and a number of local authority highways opportunities are in bid currently. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities. This will change the delivery and procurement landscape for local highways and transport projects over the medium term.

In Australia, a number of highways opportunities exist with our joint venture partner including the Perth Metro scheme, news of which is expected shortly.

Infrastructure Services – Utilities

In utilities, the AMP6 contracts are performing well as they progress through the mid-point of their five-year cycle. We are in discussions with clients about the AMP7 cycle that commences in 2020, with AMP7 spending expected to remain at similar levels to AMP6.

The McNicholas business is performing well, with contract awards and extensions totalling £140m since its acquisition in July 2017. The business delivered a better than expected contribution in the first half of the year and, during the period, sold its plant business. Following its integration, Kier has a market leading UK utilities business. We have extended our reach in power distribution, with customers such as UK Power Networks, and increased volumes with Network Rail.

Property Services – Housing Maintenance
The housing maintenance market remains challenging against a backdrop of budget reductions and the merger of housing associations. Following the Grenfell fire, our clients await Government direction on building regulations prior to committing to new schemes, which is delaying capital spend. However, the business has been agile in responding to an increase in demand for fire regulation assessments and compliance work and has expanded its capabilities in these areas. It is anticipated that demand in this sector will provide opportunity over the medium term.

The business has continued to invest in the quality of its services, investing in a front-line IT system enabling greater efficiency of teams, better communications with our clients and working more closely with our mixed tenure residential housing business. During the period, a number of maintenance contracts were extended totaling c.£30m.

Property Services – Kier Workplace Services
The business is principally focused on the provision of FM services. During the period, it secured a number of wins totaling £65m and undertook two significant mobilisations including the British Red Cross. A new five-year £17m contract with Capital City Academy Trust commenced in August and further opportunities exist with this client.

The business is working closely with the Construction division as the complementary nature of capabilities and client base provides opportunity to secure new work, for example the ESFA framework. Following the award of the Powys contract last year, Wales remains an important strategic location for the business and it was awarded a three-year total FM contract with Welsh Water valued at £5m and a three-year contract with Careers Wales. There is an increasing use of frameworks for the provision of FM services and the business has secured places on a number, including the four-year £430m Crown Commercial Services estates professional services framework.

Other
In the environmental business, our performance was in line with expectations, whilst closely monitoring the impact of recyclate pricing.

Services outlook
The Services division, which accounts for more than 50% of the Group's profits, continues to perform well. It secured £0.7bn of new business in the period and has a strong order book of £4.8bn, giving good visibility for 2018 and over the longer term.

The highways business continues to collaborate with Highways England as the client evolves its operating model. A major procurement exercise commenced in January 2018 for a programme of works that will be delivered through Routes to Market, the successor to the Collaborative Delivery Framework. The projected spend spread across the programme of schemes is c.£8.7bn over a six-year period from 2018 to 2024. Successful contractors will become delivery integration partners, responsible for both design and construction. The local authority market provides a steady pipeline of opportunities and we await the outcome of the Cheshire East Council and Croydon Council tender processes. The outlook for our Highways business remains positive.

Our utilities business continues to perform well. It is increasing its presence in growing market sectors such as power and telecoms and extending its client base. We look forward to the opportunities that arise through the AMP7 process.

FINANCIAL REVIEW

Summary of underlying results

The Group performed well in the six month period ended 31 December 2017, in line with management expectations. Revenue for the six months increased by 8% to £2.2bn (December 2016: £2.0bn) including the McNicholas business which was acquired in July 2017. On an organic basis, revenue growth was 2%. The Group's underlying operating profit for the period was £60.0m (December 2016: £57.3m), an increase of 5%.

Central costs increased 33% to £22.0m (December 2016: £16.5m). This includes costs of £3.0m relating to the McNicholas acquisition and the completion of the final phase of the Oracle ERP implementation and associated shared service centre support costs.

Net financing costs

Underlying net financing costs totalled £11.2m (December 2016: £10.2m). The increase was driven by the movement in average net debt for the period.

Operating profitability

Underlying profit before tax at £48.8m (December 2016: £47.1m) represents an increase of 4%.

Return on capital employed (ROCE) of 23% within the Property division remained robustly above our target of 15% supported by our continued use of capital efficient joint venture structures.

ROCE within our Residential division of 11% has improved from 8% as the division benefits from the Cross-Keys Homes joint venture entered into in the final quarter of the prior financial year and an improving quality of land bank.

Construction margins of 1.8% have been impacted in particular by a charge of £7.7m relating to the final costs of closure of the Caribbean and Hong Kong businesses. Margins are expected to improve in the second half of the financial year.

A strong performance from the Services division has resulted in revenue increasing by 6% on a like-for-like basis with an operating margin of 4.9% (December 2016: 4.8%), underpinned by the robust contribution from the highways and utilities businesses, the disposal of the McNicholas plant business and the settlement of some long-standing disputed accounts in McNicholas.

Taxation

The underlying tax charge for the period of £8.5m (December 2016: £8.5m) represents an effective corporation tax rate of 17.4% (December 2016: 18.0%), assisted by the continuing use of capital efficient joint venture structures in the Property and Residential divisions.

Discontinued operations

Following its disposal in the prior year, the results of Biogen Holdings Limited have been reclassified as discontinued operations in the prior period. This has resulted in December 2016 underlying operating profit increasing from £56.5m to £57.3m.

Earnings per share

The underlying basic earnings per share from continuing operations has increased by 3% to 41.0p (December 2016: 39.7p). The average number of shares in issue was 97.1m (December 2016: 96.0m) with the increase driven by the uptake of the scrip dividend during the prior period.

Cash flow

Operating cash inflows before the movement in working capital and after dividends from joint ventures totalled £84m (December 2016: £70m) and represent 125% of operating profit. This included the recognition of £32m of dividends from joint ventures as prior period reported profits were realised directly in cash. Working capital before investment in Property and Residential was an outflow of £58m (December 2016: £28m outflow) with the seasonal reduction in turnover in the UK Building business in the half year being greater than in prior periods. The volumes and cash flow are expected to reverse positively in the second half of the year.

Retirement benefit obligations
Kier operates a number of defined benefit pension schemes. At the period 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 £19m after deferred tax (June 2017: £70m). The decrease in deficit in the period was driven by strong asset performance, with a gain in the period of £90m.

During the period, the deficit in respect of the McNicholas pension scheme of £10m was acquired and is included in the net balance above.

Net debt
The Group's net debt balance as at 31 December 2017 of £239m (June 2017: £110m) includes the £24m cost and acquired debt of McNicholas. As anticipated, the timing of investment in Property and Residential assets in the period led to an increase in average net debt to c.£350m (December 2016: £300m). The Group's net debt position is underpinned by our Property and Residential assets of c.£500m. Capital employed in these divisions is now at the required level for the purposes of achieving Vision 2020 targets. We therefore expect net debt to EBITDA to be less than 1x at 30 June 2018, and for the Group's average net debt level to reduce over the period to 2020.

Lower volumes within the construction portfolio in the first half of the financial year have impacted working capital. The working capital outflow for the period of £58m (2017: £28m outflow) is anticipated to reverse in the second half of the year with material additional sites forecast to commence operations. This forecast increase in activity, supported by our robust order book, underpins our anticipated net debt position at year end.

In July 2017, the Group's core Revolving Credit Facility was extended for two additional years to July 2022 and increased from £400m to £670m. All covenants in respect of debt facilities have been tested as at 31 December 2017 and indicate an adequate level of headroom.

Order book
The order book of £9.5bn (June 2017: £8.9bn) grew 7%, and includes the acquisition of the McNicholas order book. Pipeline conversion remains strong in both Construction and Services, particularly in regional building and highways, providing visibility of 100% of revenues for the year.

Post balance sheet event
On 15 January 2018, Carillion entered liquidation. Kier was involved in three joint arrangements with Carillion and consequently has increased its share in these arrangements. On the Smart Motorways project, Kier moved from a 50% share to a 100% share. On the two separate HS2 contracts, Kier moved from a 33% share to a 50% share. The above contracts are all performing well, operationally and financially. Management is in the process of evaluating the impact of these changes on future profits of the Group.

Dividend
The Board is pleased to announce an interim dividend of 23.0p (December 2016: 22.5p), up 2%, reflecting the Board's confidence in the Group's prospects and the intention to increase dividend cover towards 2x by 2020. This will be paid on 18 May 2018 to shareholders on the register at the close of business on 23 March 2018. As an alternative to the cash dividend, shareholders will be offered the option to participate in a Dividend Reinvestment Plan (DRIP). The deadline for shareholders to submit their instructions to participate in the DRIP in respect of the interim dividend is 5.30 p.m. (London time) on Friday, 13 April 2018.

IFRS 15
The Group has undertaken a review by contract type for each of its businesses in preparation for transitioning to IFRS15 'Revenue from Contracts with Customers'. IFRS15 will impact on a number of judgmental areas currently accounted for under IAS11 'Construction Contracts' and IAS18 'Revenue'. The Group's first accounts prepared under IFRS15 will be those for the year ending 30 June 2019. Given the contractual form and relatively short-term nature of contracts in the Construction business, a project level review is being carried out on our construction contracts to assess the effect of IFRS15. It is currently anticipated that this will have concluded by 30 June 2018. IFRS15 is anticipated to have a minimal impact on our Property, Residential and Services divisions.

Principal risks and uncertainties
The principal risks and uncertainties continue to be those which are set out on pages 37 – 41 of the Group's annual report and accounts for the year ended 30 June 2017.

Consolidated income statement

Kier Group plc
Interim Management Report and Financial Statements for the six months ended 31 December 2017

For the six months ended 31 December 2017

				Unaudited 6 months to 31 December 2017			Unaudited 6 months to 31 December 2016[2]			Year to 30 June 2017
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	**2,154.0**	**11.9**	**2,165.9**	2,000.7	5.4	2,006.1	4,265.2	17.1	4,282.3
Less share of joint ventures	2	**(154.5)**	**-**	**(154.5)**	(10.5)	-	(10.5)	(153.5)	-	(153.5)
Group revenue		**1,999.5**	**11.9**	**2,011.4**	1,990.2	5.4	1,995.6	4,111.7	17.1	4,128.8
Cost of sales		**(1,823.7)**	**(11.9)**	**(1,835.6)**	(1,805.6)	(50.8)	(1,856.4)	(3,728.3)	(111.8)	(3,840.1)
Gross profit		**175.8**	**-**	**175.8**	184.6	(45.4)	139.2	383.4	(94.7)	288.7
Administrative expenses		**(139.2)**	**(12.5)**	**(151.7)**	(133.3)	(1.4)	(134.7)	(268.2)	(33.7)	(301.9)
Share of post-tax results of joint ventures		**22.8**	**-**	**22.8**	4.2	-	4.2	25.0	-	25.0
Profit on disposal of joint ventures and subsidiaries		**0.6**	**-**	**0.6**	1.8	37.3	39.1	5.4	31.0	36.4
Profit/(loss) from operations	2	**60.0**	**(12.5)**	**47.5**	57.3	(9.5)	47.8	145.6	(97.4)	48.2
Finance income		**0.5**	**-**	**0.5**	1.0	0.1	1.1	1.8	-	1.8
Finance cost		**(11.7)**	**(2.6)**	**(14.3)**	(11.2)	(2.0)	(13.2)	(21.3)	(2.9)	(24.2)
Profit/(loss) before tax		**48.8**	**(15.1)**	**33.7**	47.1	(11.4)	35.7	126.1	(100.3)	25.8
Taxation	5	**(8.5)**	**3.1**	**(5.4)**	(8.5)	12.3	3.8	(21.9)	12.0	(9.9)
Profit/(loss) for the period from continuing operations		**40.3**	**(12.0)**	**28.3**	38.6	0.9	39.5	104.2	(88.3)	15.9
Discontinued operations										
Profit for the period from discontinued operations		**-**	**-**	**-**	(0.6)	-	(0.6)	(4.1)	-	(4.1)
Profit/(loss) for the period		**40.3**	**(12.0)**	**28.3**	38.0	0.9	38.9	100.1	(88.3)	11.8
Attributable to:										
Owners of the parent		**39.8**	**(12.0)**	**27.8**	37.6	0.9	38.5	99.0	(88.3)	10.7
Non-controlling interests		**0.5**	**-**	**0.5**	0.4	-	0.4	1.1	-	1.1
		40.3	**(12.0)**	**28.3**	38.0	0.9	38.9	100.1	(88.3)	11.8
Earnings per share										
Basic earnings per share										
From continuing operations	7	**41.0p**	**(12.4)p**	**28.6p**	39.7p	1.0p	40.7p	106.8p	(91.5)p	15.3p
From discontinued operations	7	**-**	**-**	**-**	(0.6)p	-	(0.6)p	(4.2)p	-	(4.2)p
Diluted earnings per share										
From continuing operations	7	**40.6p**	**(12.2)p**	**28.4p**	39.6p	0.9p	40.5p	106.1p	(90.9)p	15.2p
From discontinued operations	7	**-**	**-**	**-**	(0.6)p	-	(0.6)p	(4.2)p	-	(4.2)p

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Restated to classify Biogen as discontinued.
[3] Non-underlying revenue relates exclusively to UK Mining operations.

Consolidated statement of comprehensive income

For the six months ended 31 December 2017

	Unaudited 6 months to 31 December 2017 £m	Unaudited 6 months to 31 December 2016[1] £m	Year to 30 June 2017 £m
Profit for the period	**28.3**	**38.9**	**11.8**
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**0.1**	-	(2.2)
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	**-**	-	0.4
Fair value (loss)/gain on cash flow hedging instruments	**(5.8)**	5.6	1.6
Fair value movements on cash flow hedging instruments recycled to the income statement	**3.8**	(9.6)	(4.2)
Deferred tax on fair value movements on cash flow hedging instruments	**0.3**	0.7	0.4
Foreign exchange gains on long-term funding of foreign operations	**0.2**	6.4	1.7
Foreign exchange translation differences	**(1.7)**	(2.1)	1.1
Foreign exchange movements recycled to the income statement[2]	**-**	-	(3.7)
Total items that may be reclassified subsequently to the income statement	**(3.1)**	1.0	(4.9)
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	**59.8**	(12.9)	(29.3)
Deferred tax (charge)/credit on actuarial gain/(losses) on defined benefit liabilities	**(10.2)**	2.3	2.1
Total items that will not be reclassified to the income statement	**49.6**	**(10.6)**	**(27.2)**
Other comprehensive income/(loss) for the period	**46.5**	**(9.6)**	**(32.1)**
Total comprehensive income/(loss) for the period	**74.8**	**29.3**	**(20.3)**
Attributable to:			
Owners of the parent	**74.3**	28.9	(21.4)
Non-controlling interests – continuing operations	**0.5**	0.4	1.1
	74.8	**29.3**	**(20.3)**
Total comprehensive income/(loss) attributable to equity shareholders arises from:			
Continuing operations	**74.3**	29.5	(17.3)
Discontinued operations	**-**	(0.6)	(4.1)
	74.3	**28.9**	**(21.4)**

[1] Restated to classify Biogen as discontinued.
[2] Amounts previously booked in the translation reserve, arising from retranslation of the results and balance sheet of the Group's Hong Kong operations, have been recycled to the income statement following the closure of those operations.

Consolidated statement of changes in equity

For the six months ended 31 December 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	**Equity attributable to owners of the parent £m**	Non-controlling interest £m	**Total equity £m**
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 payments	-	-	-	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**
(Loss)/profit for the period	-	-	-	(27.8)	-	-	-	**(27.8)**	0.7	**(27.1)**
Other comprehensive loss	-	-	-	(16.6)	(0.7)	(5.2)	-	**(22.5)**	-	**(22.5)**
Dividends paid	-	-	-	(21.8)	-	-	-	**(21.8)**	(0.2)	**(22.0)**
Issue of own shares	-	0.4	-	-	-	-	-	**0.4**	-	**0.4**
Share-based payments	-	-	-	2.3	-	-	-	**2.3**	-	**2.3**
At 30 June 2017	**1.0**	**434.8**	**2.7**	**(63.9)**	**(5.7)**	**4.7**	**134.8**	**508.4**	**3.0**	**511.4**
Profit for the period	-	-	-	27.8	-	-	-	**27.8**	0.5	**28.3**
Other comprehensive income/(loss)	-	-	-	49.6	(1.6)	(1.5)	-	**46.5**	-	**46.5**
Dividends paid	-	-	-	(43.7)	-	-	-	**(43.7)**	(0.7)	**(44.4)**
Issue of own shares	-	0.2	-	-	-	-	-	**0.2**	-	**0.2**
Share-based payments	-	-	-	3.3	-	-	-	**3.3**	-	**3.3**
Purchase of own shares	-	-	-	(0.5)	-	-	-	**(0.5)**	-	**(0.5)**
At 31 December 2017	**1.0**	**435.0**	**2.7**	**(27.4)**	**(7.3)**	**3.2**	**134.8**	**542.0**	**2.8**	**544.8**

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

Consolidated balance sheet

At 31 December 2017

	Notes	**Unaudited 6 months to 31 December 2017 £m**	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Non-current assets				
Intangible assets		**866.6**	793.5	802.8
Property, plant and equipment		**89.1**	90.2	90.4
Investments in and loans to joint ventures		**188.4**	130.3	184.4
Deferred tax assets		**7.5**	21.6	11.6
Trade and other receivables		**35.8**	28.9	38.2
Retirement benefit assets[1]	4	**38.6**	0.9	4.6
Non-current assets		**1,226.0**	1,065.4	1,132.0
Current assets				
Inventories		**588.7**	722.5	593.9
Trade and other receivables		**547.6**	522.5	531.1
Corporation tax receivable		**-**	1.0	0.9
Other financial assets	13	**12.8**	23.1	18.9
Cash and cash equivalents	9	**415.0**	287.8	499.8
Current assets		**1,564.1**	1,556.9	1,644.6
Assets held for sale as part of a disposal group	8	**0.8**	-	-
Total assets		**2,790.9**	2,622.3	2,776.6
Current liabilities				
Borrowings	9	**-**	(44.4)	(50.0)
Finance lease obligations		**(5.6)**	(12.2)	(9.1)
Trade and other payables		**(1,382.1)**	(1,344.4)	(1,433.7)
Corporation tax payable		**(5.7)**	-	-
Provisions		**(15.1)**	(10.8)	(19.0)
Current liabilities		**(1,408.5)**	(1,411.8)	(1,511.8)
Liabilities held for sale as part of a disposal group	8	**(3.0)**	-	-
Non-current liabilities				
Borrowings	9	**(671.6)**	(449.6)	(581.8)
Finance lease obligations		**(3.0)**	(7.5)	(5.2)
Other financial liabilities	13	**(0.1)**	(0.5)	(0.3)
Trade and other payables		**(30.0)**	(10.8)	(16.6)
Retirement benefit obligations[1]	4	**(61.9)**	(82.7)	(89.2)
Provisions		**(68.0)**	(79.1)	(60.3)
Non-current liabilities		**(834.6)**	(630.2)	(753.4)
Total liabilities		**(2,246.1)**	(2,042.0)	(2,265.2)
Net assets		**544.8**	580.3	511.4
Equity				
Share capital		**1.0**	1.0	1.0
Share premium		**435.0**	434.4	434.8
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**(27.4)**	-	(63.9)
Cash flow hedge reserve		**(7.3)**	(5.0)	(5.7)
Translation reserve		**3.2**	9.9	4.7
Merger reserve		**134.8**	134.8	134.8
Equity attributable to owners of the parent		**542.0**	577.8	508.4
Non-controlling interests		**2.8**	2.5	3.0
Total equity		**544.8**	580.3	511.4

[1] Prior periods restated to show pension schemes in surplus and deficit positions separately.

Consolidated cash flow statement

For the six months ended 31 December 2017

	Notes	**Unaudited 6 months to 31 December 2017 £m**	Unaudited 6 months to 31 December 2016[1] £m	Year to 30 June 2017 £m
Cash flow from operating activities				
Profit/(loss) before tax – continuing operations		**33.7**	35.7	25.8
– discontinued operations		**-**	(0.6)	(1.8)
Non-underlying items		**-**	(1.8)	75.1
Net finance cost		**13.8**	12.1	22.4
Share of post-tax trading results of joint ventures		**(22.8)**	(3.4)	(23.5)
Normal cash contributions to pension fund in excess of pension charge		**0.9**	1.3	2.7
Equity settled share-based payments charge		**3.3**	0.4	2.7
Negative goodwill recognised and amortisation of intangible assets		**17.1**	15.1	30.1
Other non-cash items		**(1.5)**	-	(4.7)
Depreciation charges		**9.9**	9.5	19.7
Profit on disposal of joint ventures and subsidiaries		**(0.6)**	(1.8)	(5.4)
Profit on disposal of property, plant and equipment and intangible assets		**(1.8)**	(0.8)	(1.0)
Operating cash inflows before movements in working capital		**52.0**	65.7	142.1
Deficit contributions to pension fund		**(14.5)**	(15.7)	(31.3)
Decrease/(increase) in inventories		**7.2**	(46.5)	(51.2)
Decrease/(increase) in receivables		**39.9**	(27.6)	(47.2)
(Decrease)/increase in payables		**(94.8)**	(5.0)	72.6
Decrease in provisions		**(8.6)**	(11.3)	(22.9)
Cash (outflow)/inflow from operating activities before non-underlying items		**(18.8)**	(40.4)	62.1
Cash (outflow)/inflow from non-underlying items	3	**(15.0)**	25.1	66.6
Cash (outflow)/inflow from operating activities		**(33.8)**	(15.3)	128.7
Dividends received from joint ventures		**52.6**	0.2	23.2
Interest received		**0.5**	1.1	1.8
Income tax received/(paid)		**0.2**	(4.7)	(3.8)
Net cash inflow/(outflow) from operating activities		**19.5**	(18.7)	149.9
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**3.6**	1.1	1.4
Proceeds from sale of joint venture		**-**	32.5	26.0
Purchase of property, plant and equipment		**(8.8)**	(5.2)	(15.8)
Purchase of intangible assets		**(26.5)**	(19.6)	(44.4)
Acquisition of subsidiaries		**(14.3)**	-	-
Investment in joint ventures		**(35.3)**	(32.4)	(49.3)
Classification to assets held for sale		**2.5**	-	-
Net borrowings acquired with subsidiaries		**(6.1)**	-	-
Net cash used in investing activities		**(84.9)**	(23.6)	(82.1)
Cash flows from financing activities				
Issue of shares		**0.2**	2.8	3.2
Purchase of own shares		**(0.5)**	-	(0.6)
Interest paid		**(10.7)**	(10.3)	(19.1)
Cash inflow incurred raising finance		**(2.3)**	-	0.9
Inflow from finance leases on property, plant and equipment		**-**	8.3	1.7
Inflow from borrowings		**96.3**	181.2	368.5
Finance lease repayments		**(6.1)**	(15.0)	(13.7)
Repayment of borrowings		**(50.4)**	-	(45.0)
Dividends paid to equity holders of the parent		**(43.7)**	(27.6)	(49.4)
Dividends paid to minority interests		**(0.7)**	(0.1)	(0.3)
Net cash (used in)/from financing activities		**(17.9)**	139.3	246.2
(Decrease)/increase in cash, cash equivalents and overdraft		**(83.3)**	97.0	314.0
Effect of change in foreign exchange rates		**(1.5)**	4.1	(0.9)
Opening cash, cash equivalents and overdraft		**499.8**	186.7	186.7
Closing cash, cash equivalents and overdraft	9	**415.0**	287.8	499.8

[1] Restated to classify Biogen as discontinued.

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 2017 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 2017 were approved by the Board of Directors on 20 September 2017 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 2017.

These interim financial statements were approved by the directors on 14 March 2018.

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 2017.

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 2017.

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 3-13.

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.

Notes to the interim financial statements
Continued

Discontinued operations
Following its sale in the period to 30 June 2017, the results of Biogen have been reclassified to discontinued operations in the comparative periods.

Assets held for sale
Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for sale in their present condition.

Notes to the interim financial statements
Continued

2 Segmental reporting

Six months to 31 December 2017	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	137.8	166.2	949.4	900.6	-	2,154.0
Less share of joint ventures	(103.6)	(48.2)	-	(2.7)	-	(154.5)
Group revenue	**34.2**	**118.0**	**949.4**	**897.9**	**-**	**1,999.5**
Profit						
Group operating (loss)/profit	(4.9)	3.3	16.7	43.5	(22.0)	36.6
Share of post-tax results of joint ventures	17.1	5.4	-	0.3	-	22.8
Profit on disposal of joint ventures	-	-	-	0.6	-	0.6
Underlying operating profit/(loss)	**12.2**	**8.7**	**16.7**	**44.4**	**(22.0)**	**60.0**
Underlying net finance (costs)/income[2]	(2.1)	(3.7)	3.1	(1.5)	(7.0)	(11.2)
Underlying profit/(loss) before tax	**10.1**	**5.0**	**19.8**	**42.9**	**(29.0)**	**48.8**
Non-underlying items:						
Amortisation of intangible assets relating to contract rights	-	-	(0.3)	(12.2)	-	(12.5)
Non-underlying finance costs	-	-	(0.7)	(1.9)	-	(2.6)
Profit/(loss) before tax from continuing operations	**10.1**	**5.0**	**18.8**	**28.8**	**(29.0)**	**33.7**
Balance sheet						
Total assets excluding cash	245.7	317.0	575.4	518.4	718.6	2,375.1
Liabilities excluding borrowings	(44.8)	(125.5)	(717.6)	(476.4)	(225.3)	(1,589.6)
Net operating assets/(liabilities)[3]	**200.9**	**191.5**	**(142.2)**	**42.0**	**493.3**	**785.5**
Cash and cash equivalents, net of hedge effects	(122.3)	(157.9)	240.9	119.2	(318.4)	(238.5)
Net assets excluding net liabilities held for sale	**78.6**	**33.6**	**98.7**	**161.2**	**174.9**	**547.0**
Net liabilities held for sale	**-**	**-**	**-**	**(2.2)**	**-**	**(2.2)**
Net assets	**78.6**	**33.6**	**98.7**	**159.0**	**174.9**	**544.8**

Six months to 31 December 2016	Property[4] £m	Residential £m	Construction £m	Services £m	Corporate £m	Group[4] £m
Revenue[1]						
Group and share of joint ventures	46.2	168.9	1,016.8	768.8	-	2,000.7
Less share of joint ventures	(10.5)	-	-	-	-	(10.5)
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	3.9	-	-	0.3	-	4.2
Profit on disposal of joint ventures	1.8	-	-	-	-	1.8
Underlying operating profit/(loss)	**7.7**	**8.1**	**20.8**	**37.2**	**(16.5)**	**57.3**
Underlying net finance (costs)/income[2]	(2.5)	(4.6)	2.7	(3.0)	(2.8)	(10.2)
Underlying profit/(loss) before tax	**5.2**	**3.5**	**23.5**	**34.2**	**(19.3)**	**47.1**
Non-underlying items:						
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	**5.2**	**3.5**	**27.7**	**12.7**	**(13.4)**	**35.7**
Balance sheet						
Total assets excluding cash[5]	223.9	330.5	631.7	433.0	715.4	2,334.5
Liabilities excluding borrowings[5]	(42.7)	(113.6)	(630.9)	(540.4)	(247.7)	(1,575.3)
Net operating assets/(liabilities)[3]	**181.2**	**216.9**	**0.8**	**(107.4)**	**467.7**	**759.2**
Cash and cash equivalents, net of hedge effects	(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**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Year to 30 June 2017	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	182.0	375.7	2,019.4	1,688.1	-	**4,265.2**
Less share of joint ventures	(117.3)	(27.6)	-	(8.6)	-	**(153.5)**
Group revenue	**64.7**	**348.1**	**2,019.4**	**1,679.5**	**-**	**4,111.7**
Profit						
Group operating profit/(loss)	-	18.8	39.8	86.4	(29.8)	**115.2**
Share of post-tax results of joint ventures	20.4	4.0	-	0.6	-	**25.0**
Profit on disposal of joint ventures	5.4	-	-	-	-	**5.4**
Underlying operating profit/(loss)	**25.8**	**22.8**	**39.8**	**87.0**	**(29.8)**	**145.6**
Underlying net finance (costs)/income[2]	(5.0)	(8.9)	5.5	(4.3)	(6.8)	**(19.5)**
Underlying profit/(loss) before tax	**20.8**	**13.9**	**45.3**	**82.7**	**(36.6)**	**126.1**
Non-underlying items:						
Amortisation of intangible assets relating to contract rights	(0.1)	-	(0.4)	(21.8)	-	**(22.3)**
Non-underlying finance costs	-	-	(0.4)	(2.5)	-	**(2.9)**
Other non-underlying items	(7.6)	(2.2)	(49.5)	(10.7)	(5.1)	**(75.1)**
Profit/(loss) before tax from continuing operations	**13.1**	**11.7**	**(5.0)**	**47.7**	**(41.7)**	**25.8**
Balance sheet						
Total assets excluding cash[5]	197.3	295.2	625.7	441.3	717.3	**2,276.8**
Liabilities excluding borrowings[5]	(53.9)	(131.2)	(656.1)	(582.9)	(231.2)	**(1,655.3)**
Net operating assets/(liabilities)[3]	**143.4**	**164.0**	**(30.4)**	**(141.6)**	**486.1**	**621.5**
Cash and cash equivalents, net of hedge effects	(75.1)	(134.5)	280.0	116.8	(297.3)	**(110.1)**
Net assets/(liabilities)	**68.3**	**29.5**	**249.6**	**(24.8)**	**188.8**	**511.4**

[1] Revenue is stated after the exclusion of inter-segmental revenue.
[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 classify Biogen as discontinued.
[5] Prior periods restated to show gross pension assets and liabilities.

Notes to the interim financial statements
Continued

3 Non-underlying items[1]

	Unaudited 6 months to 31 December 2017 £m	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Portfolio simplification - closure of businesses			
Closure of Hong Kong operations and related contracts	**-**	-	(26.3)
Closure of Caribbean operations and related contract final accounts	**-**	(33.0)	(60.4)
Portfolio simplification - sale of assets and other M&A activity			
Gain relating to the disposal of Mouchel Consulting	**-**	38.7	40.0
Loss on disposal of Biogen	**-**	-	(7.6)
Other M&A gains, losses and costs	**-**	(1.4)	(5.5)
Other non-underlying costs			
Provision relating to Environmental Services contracts, recyclate costs, and curtailment of contracts	**-**	(7.0)	(11.1)
Provision for Health, Safety and Environmental (HSE) incidents arising from revised sentencing guidelines	**-**	(1.5)	(8.0)
Establishment of Cross Keys Homes joint venture	**-**	-	(2.2)
Pension curtailment gain	**-**	6.0	6.0
Total other non-underlying items	**-**	**1.8**	**(75.1)**
Amortisation of intangible contract rights	**(12.5)**	(11.3)	(22.3)
Financing costs	**(2.6)**	(1.9)	(2.9)
Total non-underlying items	**(15.1)**	**(11.4)**	**(100.3)**
Associated tax credit	**3.1**	12.3	12.0
Charged against (loss)/profit for the year	**(12.0)**	**0.9**	**(88.3)**

[1] Exceptional Items.

Notes: In the period there has been a cash outflow of £15m arising from items taken through non-underlying in prior periods.

The revenue and costs of the UK Mining business continue to be shown in continuing but non-underlying as the business continues to be wound down.

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 2017					Unaudited 6 months to 31 December 2016				Year to 30 June 2017			
	Kier Group Pension Scheme £m	**Mouchel Pension Schemes[2] £m**	**May Gurney Pension Schemes £m**	**McNicholas Pension Scheme £m**	**Total £m**	Kier Group Pension Scheme £m	Mouchel Pension Schemes[2,3] £m	May Gurney Pension Scheme £m	Total £m	Kier Group Pension Scheme £m	Mouchel Pension Schemes[2,3] £m	May Gurney Pension Schemes £m	Total £m
Opening deficit	**(31.1)**	**(47.6)**	**(5.9)**	**-**	**(84.6)**	(23.5)	(58.3)	(6.0)	(87.8)	(23.5)	(58.3)	(6.0)	(87.8)
Acquired deficit	**-**	**-**	**-**	**(10.9)**	**(10.9)**	-	-	-	-	-	-	-	-
(Charge)/credit to income statement[1]	**(0.7)**	**(1.1)**	**(0.2)**	**(0.1)**	**(2.1)**	(0.9)	4.3	(0.2)	3.2	(1.5)	3.2	(0.5)	1.2
Employer contributions	**7.1**	**5.4**	**1.2**	**0.8**	**14.5**	8.4	6.2	1.1	15.7	16.9	12.3	2.1	31.3
Actuarial gains/(losses)	**56.1**	**3.7**	**-**	**-**	**59.8**	(4.5)	(8.0)	(0.4)	(12.9)	(23.0)	(4.8)	(1.5)	(29.3)
Closing surplus/(deficit)	**31.4**	**(39.6)**	**(4.9)**	**(10.2)**	**(23.3)**	**(20.5)**	**(55.8)**	**(5.5)**	**(81.8)**	**(31.1)**	**(47.6)**	**(5.9)**	**(84.6)**
Comprising:													
Total market value of assets	**1,181.9**	**467.1**	**78.1**	**22.2**	**1,749.3**	1,125.2	449.4	76.3	1,650.9	1,108.4	451.5	76.9	1,636.8
Present value of liabilities	**(1,150.5)**	**(506.7)**	**(83.0)**	**(32.4)**	**(1,772.6)**	(1,145.7)	(505.2)	(81.8)	(1,732.7)	(1,139.5)	(499.1)	(82.8)	(1,721.4)
Net surplus/(deficit)	**31.4**	**(39.6)**	**(4.9)**	**(10.2)**	**(23.3)**	**(20.5)**	**(55.8)**	**(5.5)**	**(81.8)**	**(31.1)**	**(47.6)**	**(5.9)**	**(84.6)**
Related deferred tax (liability)/asset	**(5.3)**	**6.8**	**0.8**	**1.7**	**4.0**	3.5	9.5	1.0	14.0	5.3	8.1	1.0	14.4
Net pension asset/(liability)	**26.1**	**(32.8)**	**(4.1)**	**(8.5)**	**(19.3)**	**(17.0)**	**(46.3)**	**(4.5)**	**(67.8)**	**(25.8)**	**(39.5)**	**(4.9)**	**(70.2)**

[1] Amounts charged to income statement for Mouchel pension schemes for the period to 31 December 2016 and 30 June 2017 include a £6.0m curtailment gain.
[2] This comprises of schemes in net surplus and net deficit positions, £7.2m surplus and £46.8m deficit at 31 December 2017 (31 December 2016: £0.9m surplus and £56.7m deficit, at 30 June 2017: £4.6m surplus and £52.2m deficit).
[3] The prior period balance sheets have been restated to show the gross net surplus and net asset positions.

Notes to the interim financial statements

Continued

5 Taxation

The taxation charge for the six months ended 31 December 2017 has been calculated at 17.4% (December 2016: 18%, June 2017: 18%) 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 2017			Unaudited 6 months to 31 December 2016[2]			Year to 30 June 2017
	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	**48.8**	**(15.1)**	**33.7**	47.1	(11.4)	35.7	126.1	(100.3)	25.8
Adjust: tax on joint ventures included above	**-**	**-**	**-**	-	-	-	0.9	-	0.9
Adjusted profit/(loss) before tax	**48.8**	**(15.1)**	**33.7**	47.1	(11.4)	35.7	127.0	(100.3)	26.7
Current tax	**(6.9)**	**0.6**	**(6.3)**	(11.4)	11.4	-	(16.2)	10.9	(5.3)
Deferred tax	**(0.7)**	**2.5**	**1.8**	2.9	2.1	5.0	(5.7)	1.1	(4.6)
Overseas tax	**(0.9)**	**-**	**(0.9)**	-	(1.2)	(1.2)	-	-	-
Total income tax (expense)/credit in the income statement	**(8.5)**	**3.1**	**(5.4)**	(8.5)	12.3	3.8	(21.9)	12.0	(9.9)
Tax on joint ventures	**-**	**-**	**-**	-	-	-	(0.9)	-	(0.9)
Effective tax (charge)/credit	**(8.5)**	**3.1**	**(5.4)**	(8.5)	12.3	3.8	(22.8)	12.0	(10.8)
Rate	**17.4%**		**16%**	18%		(11%)	18%		42%

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Restated to reclassify Biogen as discontinued

6 Dividends

Amounts recognised as distributions to equity holders in the period:	**Unaudited 6 months to 31 December 2017 £m**	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Final dividend for the year ended 30 June 2017 of 45.0 pence (2016: 43.0 pence)	**43.7**	41.2	41.2
Interim dividend for the year ended 30 June 2018 of 23.0 pence (2017: 22.5 pence)	**-**	-	21.8
	43.7	41.2	63.0

The interim dividend for the year ending 30 June 2018 of 23.0 pence per share (2017: 22.5 pence) has not yet been paid and so has not been included as a liability in these financial statements. The dividend totalling approximately £22.4m will be paid on 18 May 2018 to shareholders on the register at the close of business on 23 March 2018. 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 2017		Unaudited 6 months to 31 December 2016[1]		Year to 30 June 2017	
	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	27.8	27.8	39.1	39.1	14.8	14.8
Impact of non-underlying items net of tax:						
Amortisation of intangible assets - net of tax credit of £2.5m (2016: £2.2m)	10.0	10.0	9.1	9.1	17.9	17.9
Acquisition discount unwind[2] - net of tax credit of £0.6m (2016: £0.4m)	2.0	2.0	1.5	1.5	2.0	2.0
Other non-underlying items - net of tax credit of £nil (2016: £9.7m)	-	-	(11.5)	(11.5)	68.4	68.4
Earnings from continuing operations	39.8	39.8	38.2	38.2	103.1	103.1
Discontinued operations						
Loss (after tax and minority interests), being net loss attributable to equity holders of the parent	-	-	(0.6)	(0.6)	(4.1)	(4.1)
Loss from discontinued operations	-	-	(0.6)	(0.6)	(4.1)	(4.1)
	million	million	million	million	million	million
Weighted average number of shares used for earnings per share	**97.1**	**97.8**	96.0	96.4	96.5	97.1

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	28.6	28.4	40.7	40.5	15.3	15.2
Impact of non-underlying items net of tax:						
Amortisation of intangible assets	10.3	10.2	9.5	9.4	18.5	18.4
Acquisition discount unwind	2.1	2.0	1.6	1.6	2.1	2.1
Other non-underlying items	-	-	(12.1)	(11.9)	70.9	70.4
Earnings from continuing operations	41.0	40.6	39.7	39.6	106.8	106.1
Discontinued operations						
Loss (after tax and minority interests), being net loss attributable to equity holders of the parent	-	-	(0.6)	(0.6)	(4.2)	(4.2)
Loss from discontinued operations	-	-	(0.6)	(0.6)	(4.2)	(4.2)

[1] Restated to reclassify Biogen as discontinued.
[2] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK Mining loan.

8 Assets held for sale

The assets and liabilities of a small part of the Services division have been deemed non-core to the Kier Group portfolio. The Group is in advanced, active discussions to sell this part of the business as at the period end. The disposal group is ready for immediate sale and the Directors expect the transaction to complete within 12 months. Assets of £0.8m and liabilities of £3.0m have therefore been classified as held for sale as at 31 December 2017.

Notes to the interim financial statements
Continued

9 Cash, cash equivalents, overdraft and borrowings

	Unaudited 6 months to 31 December 2017 £m	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Net debt consists of:			
Cash and cash equivalents – bank balances and cash in hand	**415.0**	287.8	499.8
Borrowings due within one year	**-**	(44.4)	(50.0)
Borrowings due after one year	**(671.6)**	(449.6)	(581.8)
Impact of cross-currency hedging	**18.1**	27.3	21.9
Net borrowings	**(238.5)**	(178.9)	(110.1)

On 6 July 2017 the Group extended the tenor, to April 2022, of its core multi-bank Revolving Credit Facility. In addition to a lower borrowing rate, the banking group has been extended and the total available facilities have been increased to £670m from £400m.

10 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 2017 annual financial statements. 232,159 (2016: 197,553) shares have vested under the LTIP during the six months to 31 December 2017.

During the six months to 31 December 2017, the Group also established a Conditional Share Award Plan (CSAP) under which senior employees receive awards of shares subject only to service conditions, i.e. the requirement for participants to remain in employment with the Group over the vesting period. Awards under the CSAP are all equity settled. No shares have yet vested under the CSAP.

During the six months to 31 December 2017 grants were made under the LTIP and CSAP as follows:

	LTIP	CSAP
Grant date	17 November 2017	23 October 2017
Shares granted	298,426	810,637
Share price at grant	£10.49	£10.63
Exercise price	nil	nil
Option life	3 years	3 years
Expected volatility	26.04%	n/a
Risk-free interest rate	0.52%	n/a
Value per option:		
LTIP TSR element (based upon a stochastic model)	345.4p	-
LTIP EPS and Net Debt:EBITDA element (based upon the Black-Scholes model)	968.2p	-
CSAP (based upon the Black-Scholes model)	-	1,063.0p

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.

Notes to the interim financial statements
Continued

11 Acquisitions and disposals

(a) Acquisition of McNicholas

On 12 July 2017, the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited (‘McNicholas’), a leading infrastructure services provider. The acquisition of McNicholas builds on the Group’s strategy to accelerate growth and hold leading positions in its chosen markets. The Board believes the acquisition is a highly complementary addition to the Group’s utility services business and enhances the Group’s presence in the power, rail and telecoms markets, with its long-standing client relationships.

The maximum consideration payable for the acquisition is £27.4m, comprising £13.4m in cash paid at completion and £14.0m of deferred contingent consideration. The £14.0m of deferred contingent consideration comprises:

› £9.5m in cash payable on achieving certain EBITDA (earnings before interest, tax, depreciation and amortisation) targets; and
› £4.5m payable on achieving debt-recovery targets.

The fair value of the total consideration expected to be paid is £26.3m.

The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition.

The goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the Group’s strengthened market position. None of the goodwill recognised is expected to be deductible for tax purposes. £1.6m of acquisition costs were incurred in the year ended 30 June 2017 and a further £0.2m of acquisition costs have been incurred in the period to 31 December 2017 and expensed to the income statement.

	Provisional fair value to the Group £m
Intangible assets	12.1
Property, plant and equipment	1.5
Deferred tax assets	6.3
Inventories	2.0
Trade and other receivables	47.7
Income tax receivable	0.8
Bank overdrafts	(8.0)
Trade and other payables due within 1 year	(56.3)
Trade and other payables due after 1 year	(1.0)
Retirement benefit obligations	(10.9)
Provisions	(9.3)
	(15.1)
Goodwill	41.4
Total assets acquired	**26.3**
Satisfied by:	
Cash consideration	13.4
Deferred consideration	12.9
Total consideration	**26.3**

In preparing the results, revenue and costs have been included as if the business were acquired on 1 July 2017 and the inter-company transactions have been eliminated.

The McNicholas business contributed revenue of £119.1m and underlying profit before taxation of £11.7m to the Group for the period 12 July 2017 to 31 December 2017, before central recharges. The half year profit included certain one-off items including the sale of excess plant.

11 Acquisitions and disposals (continued)

(b) Deemed disposal of investment in joint venture and subsequent acquisition as a subsidiary of Kier Babcock Education Services Limited

On 26 October 2017 the Group, through its subsidiary Kier Holdings Limited, acquired the remaining share capital of its joint venture Kier Babcock Education Services Limited ('KBESL'). On the same date the Group, through its subsidiary Kier Facilities Services Limited, acquired an unincorporated business from Babcock Civil Infrastructure Limited ('the Lewisham business') for consideration of £0.9m. The acquisition opens the Group up to opportunities to participate in future schemes up to 2023, as well as increasing current profitable revenue streams.

The Group previously held 50% of the share capital of KBESL. The Group acquired the remaining 50% of the share capital of KBESL from the joint venture partner for £0.9m, and renamed the company Kier Education Services Limited ('KESL'). This transaction has been treated as a deemed disposal of a joint venture and subsequent acquisition of a subsidiary.

Disposal of KBESL joint venture
A gain of £0.6m arose on the deemed disposal of the joint venture, calculated as follows:

	£m
Deemed consideration	2.3
Carrying value of interest held	(1.7)
Gain on deemed disposal	**0.6**

Acquisition of subsidiary KBESL and the Lewisham business
Negative goodwill arose on acquisition of the Lewisham business of £0.6m and £1.5m on the acquisition of KBESL.
Provisional fair values of assets and liabilities acquired:

	Provisional fair value to the Group £m
Non-current asset	3.9
Current assets	6.4
Cash at bank	1.9
Current liabilities	(4.6)
Non-current liabilities	(1.4)
	6.2
Negative goodwill	(2.1)
Total assets acquired	**4.1**
Satisfied by:	
Cash consideration	1.8
Deemed disposal of JV	2.3
Total consideration	**4.1**

Notes to the interim financial statements
Continued

12 Related parties

The Group has a related party relationship with its joint ventures, key management personnel and pension schemes in which its employees participate.

There have been no significant changes in the nature and amount of related party transactions with the Group's key management personnel since the last annual financial statements as at, and for the year ended, 30 June 2017.

Details of contributions made to the pension schemes by the Group are detailed in note 4.

Details of the Group's transactions with joint ventures are as follows:

	Unaudited 6 months to 31 December 2017 £m	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Construction services and materials	**49.2**	4.6	0.1
Staff and associated costs	**4.8**	1.0	-
Management services	**2.0**	0.8	3.2
Interest on loans to joint ventures	**-**	-	0.8
Plant hire	**0.5**	0.3	-
	56.5	6.7	4.1

Amounts due from joint ventures are analysed below:

	Unaudited 6 months to 31 December 2017 £m	Unaudited 6 months to 31 December 2016 £m	Year to 30 June 2017 £m
Kier Reading LLP	**15.0**	15.0	15.0
Cornwall Street LLP	**13.1**	-	-
Kier (Southampton) Investment Limited	**9.2**	-	-
Kier (Newcastle) Investment Limited	**8.8**	5.2	-
Watford Health Campus Partnership LLP	**7.3**	5.6	-
50 Bothwell Street LLP	**4.7**	4.7	4.7
Kier Trade City LLP	**4.3**	10.6	10.7
Lysander Student Properties Investment Limited	**3.9**	-	-
Strawberry Percy LLP	**3.3**	-	-
Tri-Link 140 LLP	**1.4**	1.4	1.4
Hackney Schools for the Future Limited	**1.9**	-	-
Winsford Devco LLP	**1.1**	1.0	1.1
Black Rock Devco LLP	**0.9**	1.9	-
Driffield Devco LLP	**0.1**	-	-
Kier Foley Street LLP	**-**	20.9	20.9
Biogen Holdings Limited	**-**	1.2	-
Kier Sovereign LLP	**-**	-	0.3
Staffordshire Property Partnership	**-**	-	0.1
	75.0	67.5	54.2

Notes to the interim financial statements
Continued

13 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 2017.

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 2017.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	12.8	-	12.8
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	(0.1)	-	(0.1)

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 30 June 2017.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	18.9	-	18.9
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	(0.3)	-	(0.3)

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

Notes to the interim financial statements
Continued

14 Guarantees and contingent liabilities

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's contracts. The Company has also given guarantees in respect of certain contractual obligations of joint ventures and associates, which were entered into in the normal course of business, as well as certain of the Group's other obligations (for example, in respect of the Group's finance facilities and its pension schemes). A guarantee is treated as a contingent liability until such time as it becomes probable that payment will be required under its terms.

Provisions are made for the directors' best estimate of known legal claims, investigations and legal actions relating to the Group which are considered more likely than not to result in an outflow of economic benefit. If the directors consider that a claim, investigation or action relating to the Group is unlikely to succeed, no provision is made. If the directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim would be disclosed.

15 Post balance sheet events

On 15 January 2018, Carillion plc entered liquidation. Kier was involved in three joint arrangements with Carillion and consequently has increased its share in these arrangements. On the Smart Motorways project, Kier moved from a 50% share to a 100% share. On the two separate HS2 contracts, Kier moved from a 33% share to a 50% share. The above contracts are all performing well, operationally and financially. Management are in the process of evaluating the impact of these changes on future profits of the Group.

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 14 March 2018 on behalf of the Board

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

Independent review report to Kier Group plc

Report on the 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 management report and financial statements of Kier Group plc for the 6 month period ended 31 December 2017. 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 2017;
- the Consolidated income statement for the period then ended;
- the 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 Notes to the interim financial statements.

The interim financial statements included in the interim management report and financial statements 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 management report and financial statements, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim management report and financial statements 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 management report and financial statements 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.

Independent review report to Kier Group plc
Report on the consolidated interim financial statements
Continued

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, 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 management report and financial statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants
London
14 March 2018

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.