

# **Kier Group plc**

Interim results

for the six months to 31 December 2006

19 March 2007

## **Building confidence**

# Interim highlights

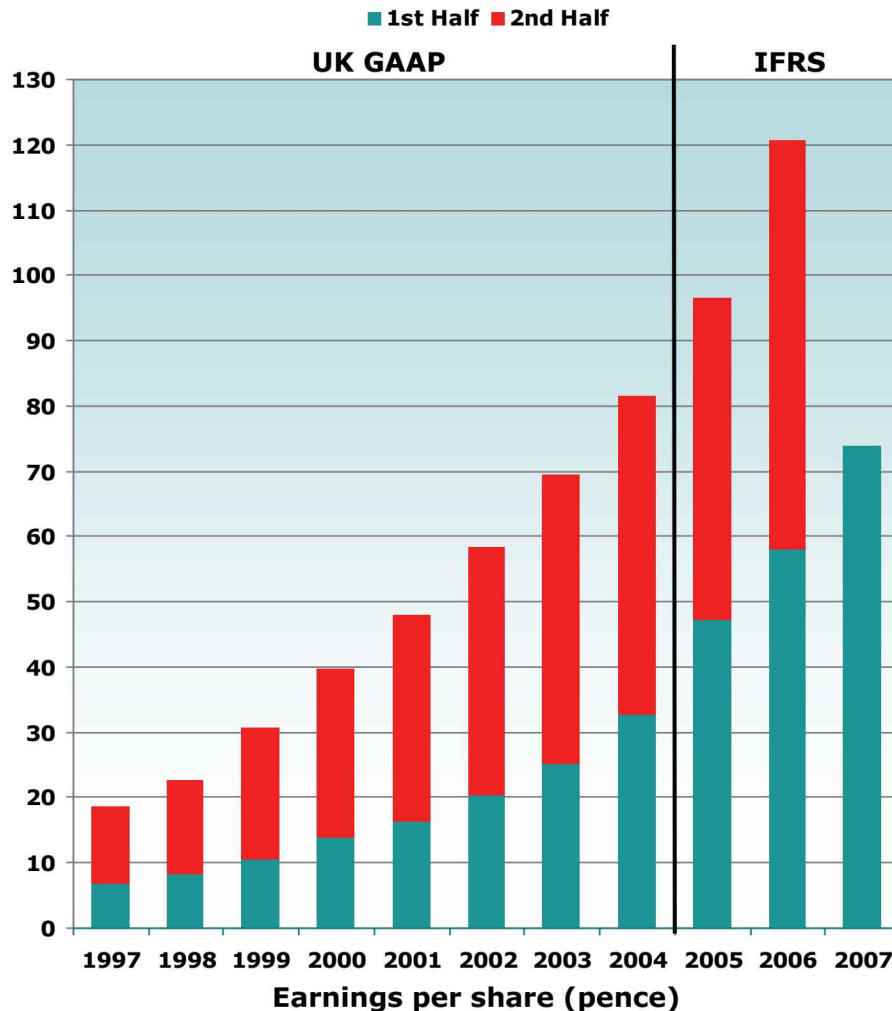


- Pre-tax profits up 27.5% to £36.2m (2005: £28.4m)
- EPS\* up 26.3% to 75.8p (2005: 60.0p)
- Dividend increased by 17.1% to 9.6p (2005: 8.2p)
- Net funds of £114.4m (2005: £87.6m)
- Strong Construction and Support Services order books
- Homes order book over 50% ahead of last year with over 80% of projected unit sales secure
- Demand for development properties remains strong

\* Before amortisation of intangibles

# EPS record

since 1996 (after flotation)



- Into 15<sup>th</sup> year of continuous growth since buyout
- Compound growth in EPS of 23% per annum since flotation

Record shown after deducting amortisation of intangible assets and before exceptional profits

# Financial summary

## consolidated income statement



	Six months to 31 December		Year to 30 June	
	2006 £m	2005 £m	Change %	2006 £m
Revenue	1,020.5	922.6	+10.6	1,838.3
Operating profit - Group	34.5	27.3	+26.4	56.0
Operating profit - joint ventures	4.4	3.4	+29.4	7.2
Group and share of joint ventures	38.9	30.7	+26.7	63.2
Share of joint ventures				
- finance cost	(1.7)	(1.3)	-	(2.6)
- tax	(0.9)	(0.8)	-	(1.4)
Profit from operations	36.3	28.6	+26.9	59.2
Net finance cost	(0.1)	(0.2)	-	(0.1)
Profit before tax	36.2	28.4	+27.5	59.1
Taxation	(9.9)	(7.8)	-	(16.2)
Profit after tax	26.3	20.6	+27.7	42.9

# Financial summary

(continued)



	Six months to 31 December		Year to 30 June	
	2006	2005	Change %	2006
Dividend per share	9.6p	8.2p	+17.1	26.0p
Dividend cover	7.7x	7.1x	-	4.6x
Adjusted earnings per share excluding amortisation of intangibles				
- undiluted	75.8p	60.0p	+26.3	124.8p
- fully diluted	74.8p	59.5p	+25.7	122.7p
Basic earnings per share				
- undiluted	73.9p	58.0p	+27.4	120.8p
- fully diluted	72.9p	57.5p	+26.8	118.8p

# Performance by segment



		Six months to 31 December		Year to 30 June	
		2006 £m	2005 £m	Change %	2006 £m
Revenue:	Construction	675.2	603.7	+11.8	1,218.1
	Support Services	142.7	139.1	+2.6	281.3
	Homes	151.8	134.8	+12.6	277.9
	Property	43.5	38.3	+13.6	47.5
	Infrastructure Investment	7.3	6.7	+9.0	13.5
		1,020.5	922.6	+10.6	1,838.3
Operating profit: *	Construction	9.5	8.2	+15.9	18.0
	Support Services <sup>1</sup>	4.1	2.9	+41.4	6.8
	Homes	20.4	19.8	+3.0	41.6
	Property	9.2	5.4	+70.4	9.2
	Infrastructure Investment	0.5	(0.2)	-	(0.7)
	Corporate overhead	(4.8)	(5.4)	-	(11.7)
		38.9	30.7	+26.7	63.2

\* Before joint venture finance costs and tax

<sup>1</sup> After amortisation of intangible assets of £1.0m (December 2005: £1.0m, June 2006: £1.9m)



# Segmental analysis

## net operating assets



	At 31 December			At 30 June
	2006 £m	2005 £m	Change £m	2006 £m
Construction	(241.0)	(200.4)	-40.6	(215.3)
Support Services	(6.1)	1.2	-7.3	(0.9)
Homes	286.7	253.8	+32.9	238.8
Property	42.7	33.7	+9.0	39.4
Infrastructure Investment Centre	(56.6)	(114.8)	+58.2	(61.4)
Net operating assets/(liabilities)	25.1	(32.2)	+57.3	(2.7)
Cash, net of debt	114.4	87.6	+26.8	111.2
Net assets	139.5	55.4	+84.1	108.5

# Balance sheet

## summary



	At 31 December		Change £m	At 30 June
	2006 £m	2005 £m		2006 £m
Intangible assets	13.8	15.7	-1.9	14.8
Property, plant and equipment	80.3	71.8	+8.5	78.5
Investment in joint ventures	28.0	17.4	+10.6	20.8
Inventories	443.3	369.1	+74.2	377.8
Other working capital	(474.8)	(383.3)	-91.5	(431.6)
Cash (net)	144.6	117.7	+26.9	141.3
Long-term borrowings	(30.2)	(30.1)	-0.1	(30.1)
Provisions	(22.6)	(20.1)	-2.5	(19.0)
Pensions (net of tax)	(28.9)	(93.0)	+64.1	(42.1)
Tax and deferred tax	(14.0)	(9.8)	-4.2	(1.9)
<b>Net assets</b>	<b>139.5</b>	<b>55.4</b>	<b>+84.1</b>	<b>108.5</b>



# Pensions

## IAS 19



	At 31 December		At 30 June	December 2006- June 2006
	2006 £m	2005 £m	2006 £m	Change £m
<b>Kier Group Pension Scheme:</b>				
Market value of assets	514.6	440.8	467.0	+47.6
Present value of liabilities	(562.7)	(578.3)	(534.0)	-28.7
Deficit in the scheme	(48.1)	(137.5)	(67.0)	-18.9
Deferred tax asset	14.4	41.3	20.1	-5.7
Net pension liability	(33.7)	(96.2)	(46.9)	+13.2
Net effect of Sheffield Scheme	4.8	3.2	4.8	-
Net pension liability	(28.9)	(93.0)	(42.1)	+13.2

- Special contributions of £8.0m in the six months to 31 December 2006 (£31.5m in the six months to 30 June 2006)
- Remaining deficit to be eliminated over 10 years

# Movement in cash balances

summary for the six months to 31 December 2006



	£m	
Opening net funds at 30 June 2006	111.2	
Cash inflow from operating activities	44.7	<ul style="list-style-type: none"> <li>• Excellent cash generation from Construction and Support Services</li> <li>• Increase in land creditors</li> <li>• £8.0m special contributions to pensions</li> </ul>
Acquisition of Hugh Bourn Homes	(20.0)	
Investment in joint ventures	(5.4)	
Net capital expenditure	(6.8)	
Financing, tax and dividends	(9.3)	
<b>Closing net funds*</b>	<b>114.4</b>	

\* Includes £42.3m (2005: £32.3m, June 2006 (£37.6m) in joint arrangements and captive insurance company

# Group structure

(revenue figures for the six months to 31 December 2006)



## Construction



### Regional Contracting

Mid-range construction projects delivered by locally managed business units across the UK.

### Building Major Projects Affordable Housing Infrastructure & Overseas

Civil engineering & mining, projects in the UK and overseas.

Revenue

£675.2m

## Support Services



### Kier Support Services

Comprehensive facilities management, reactive and planned building maintenance, M&E design and installation, plant hire and other outsourced services for both private and public sectors.

Revenue

£142.7m

## Homes



### Kier Residential

High quality private housebuilding.

Revenue

£151.8m

## Property



### Kier Property

Commercial property development.

Revenue

£43.5m

## Infrastructure Investment



### Kier Project Investment

Promotes and manages the Group's interests in the Private Finance Initiative bringing together Kier's expertise and resources in worldwide construction, property development, housing and facilities management.

Revenue

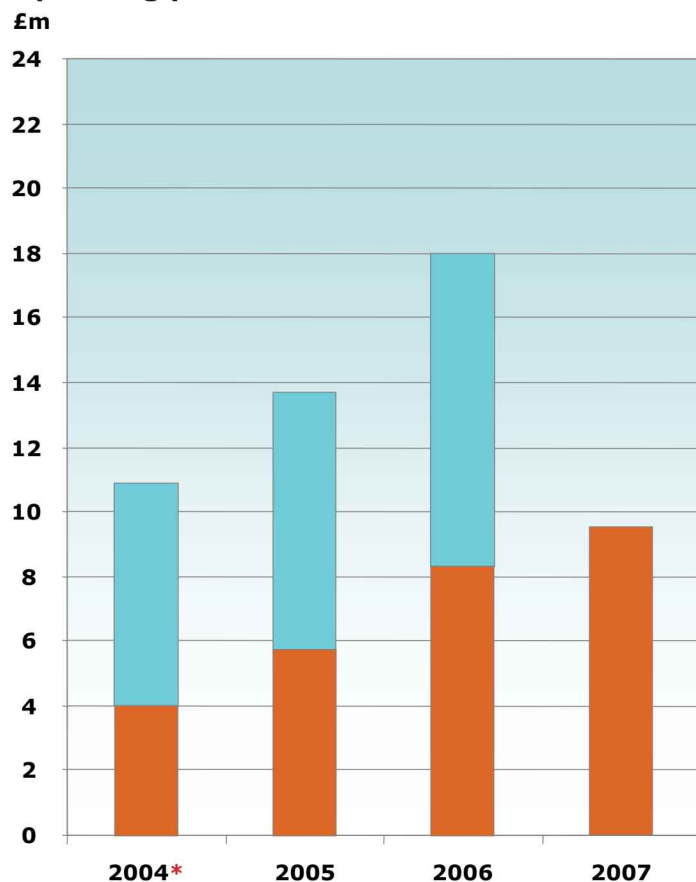
£7.3m

# Construction

## key performance indicators



### Operating profit



\* UK GAAP

1st half 2nd half

### Six months to 31 December

	2006	2005	Year to 30 June 2006
Operating margin	1.4%	1.4%	1.5%
Cash at period end	£322.4m	£278.3m	£298.7m
Order book*	£1,196m	£1,057m	£1,270m
Contract awards	£597m	£522m	£1,311m

\* Order book at 28 February 2007 and 2006 and 30 June 2006

Order book excludes a further £470m of work executed under limited letters of intent (February 2006: £282m) and a further £400m of work pending award

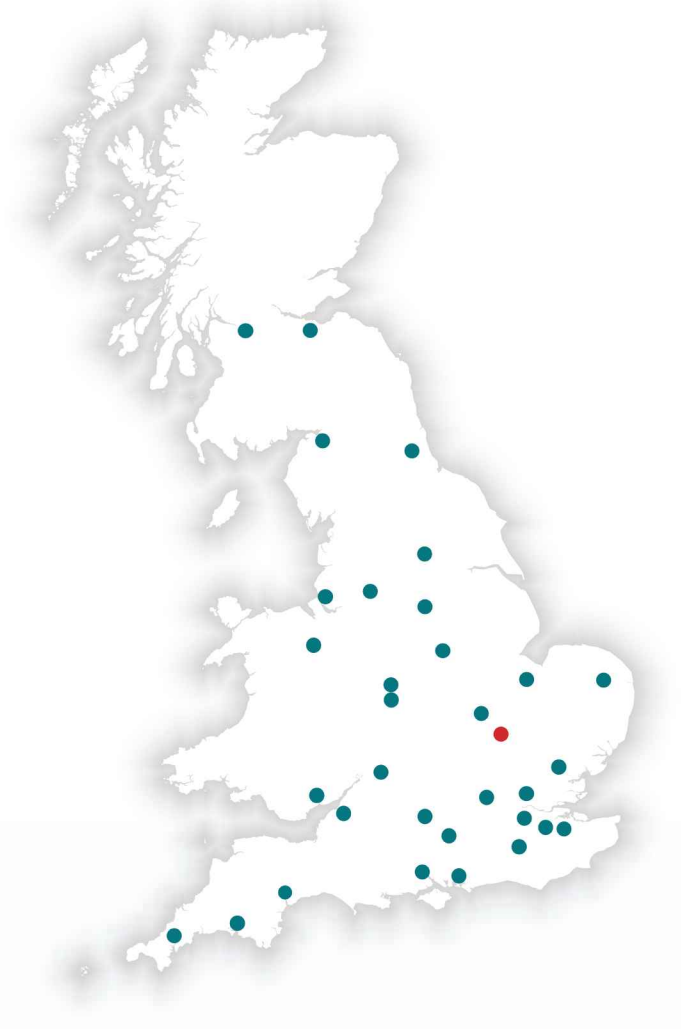
# Kier Regional

Regional contracting, building major projects, affordable housing



Six months to 31 December  
2006      2005      Year to 30 June  
2006

Contract awards	£581m	£493m	£1,216m
Public sector awards	49%	50%	43%
Private sector awards	51%	50%	57%
	100%	100%	100%
Negotiated and two-stage bids	65%	59%	65%
Competitive tender	35%	41%	35%
	100%	100%	100%
Average contract size	£3.7m	£2.7m	£3.2m





# Kier Regional

## key markets and opportunities



Sector	% of awards in six months	Key clients	Growth prospects
Commercial property	25	Ballymore Properties	Office construction expected to see a continued increase in activity
		Kier Property	
		Arlington	
Education	19	Local authorities, PFI, universities and colleges	Academies Framework: total market £1.7bn over 4 years. Total schools capital funding forecast £6.4bn in 2007/08 rising to £8bn by 2010-11
Prisons & custodial	14	Home Office Custodial Properties - Framework	Significant expenditure anticipated due to demand for prison spaces – 8,000 extra spaces by 2012
Residential	11	Local Authorities	Further growth in new build and refurbishment is anticipated
		RSL Frameworks	
Health	10	NHS	Falling off in health for traditionally funded projects
Retail	8	Tesco	Sainsbury's has restarted expansion programme. M&S and John Lewis plan for refurbishment and new stores
		Waitrose & John Lewis	
		Sainsbury	
		Morrisons	





- UK:
  - Completed remediation projects for Kier Property and Kier Residential on time and within budgets
  - South Hook progressing satisfactorily
- Greenburn opencast coal mine:
  - Cumulative production exceeded 1.5m tonnes
  - 1.8m tonnes of original deposit left, 68% forward sold
  - Planning consent approved for a further 0.8m tonnes
  - Life expectancy of mine increased to 2011



Fengate remediation



Greenburn opencast coal mine



- Overseas:
  - Good opportunities in Dubai and Romania
  - Good progress in Jamaica on:
    - Norman Manley Airport
    - Half-Way-Tree Transport Centre
  - Difficulties leading to delay on hotel project in Antigua



**Norman Manley Airport**



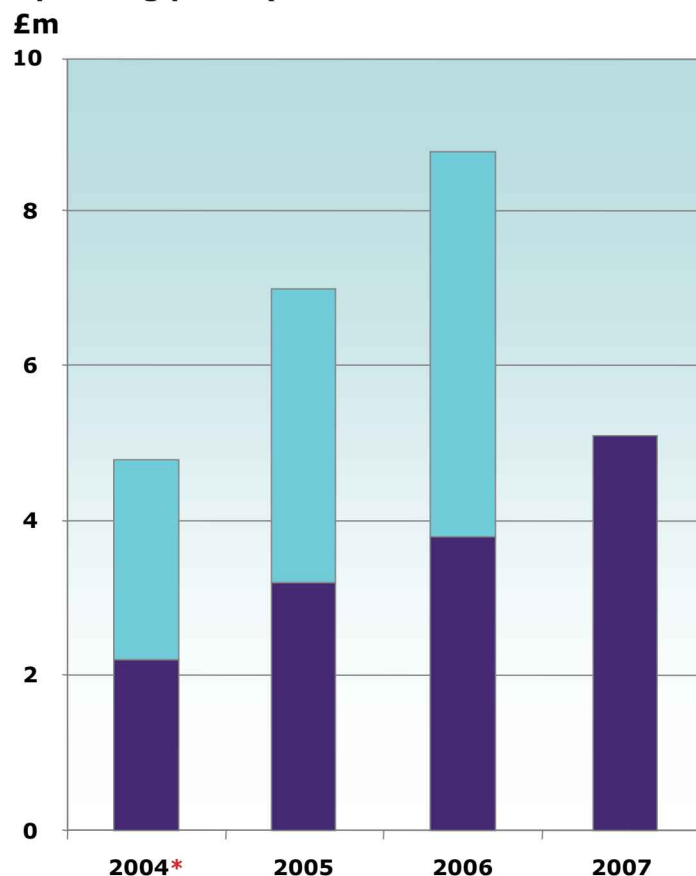
**Half-Way-Tree Transport Centre**

# Kier Support Services

## key performance indicators



### Operating profit (before amortisation of intangibles)



\* UK GAAP

■ 1<sup>st</sup> half ■ 2<sup>nd</sup> half

### Six months to 31 December

### Year to 30 June

	2006	2005	2006
Operating margin*	3.5%	2.8%	3.1%
Order book <sup>1</sup>	£1,589m	£1,292m	£1,396m
Cash	£17.8m	£8.6m	£12.5m

\* Before amortisation of intangible asset

<sup>1</sup> Order book at 28 February 2007 and 2006 and 30 June 2006

# Kier Support Services

four business streams



- **Building Maintenance:**
  - Local authority and housing association maintenance contracts, Decent Homes and street services
  - Excellent opportunities for growth
- **Managed Services:**
  - PFI hard and soft services
  - Public and private sector opportunities
  - Selective on size of contracts
- **Building Services:**
  - M&E services, maintenance and design capability
- **Plant:**
  - Plant hire both external and internal



Decent Homes



Kier Plant



# Kier Support Services

## Building Maintenance



Forward workload – principal contracts	Local Authority	Revenue	End date
Repairs and maintenance	Sheffield City Council	£56m pa	2013
	Leeds City Council	£12m pa	2010
	Islington Borough Council	£30m pa	2010
	Greenwich Borough Council	£5m pa	2010
Decent Homes	Sheffield City Council	£146m over 6 years	2012
	Islington Borough Council	£40m over 6 years	2012
	Lincoln City Council	£35m over 5 years	2012
	Hackney Borough Council	£40m over 5 years	2011
New contracts	Harlow District Council	£17m pa	2017
	One Vision Housing (Sefton)	£16m pa	2011
Preferred bidder	Kingston upon Hull City Council	£17m pa	2012
Shortlisted	Stoke-on-Trent City Council	£30m pa	Est 2017
	Harrow Borough Council	£17m pa	Est 2012
	Hackney Borough Council (R&M)	£13m pa	Est 2011



- Total housing stock in England is c 4.3m homes – Kier currently looks after c 185,000 homes
- Increasing demand for Local Authority outsourcing contracts
- Decent Homes programme likely to be extended to 2013
- Maintenance market:
  - Through Local Authorities c £1.8bn in 2006
  - Through RSL's c £4.2bn in 2006

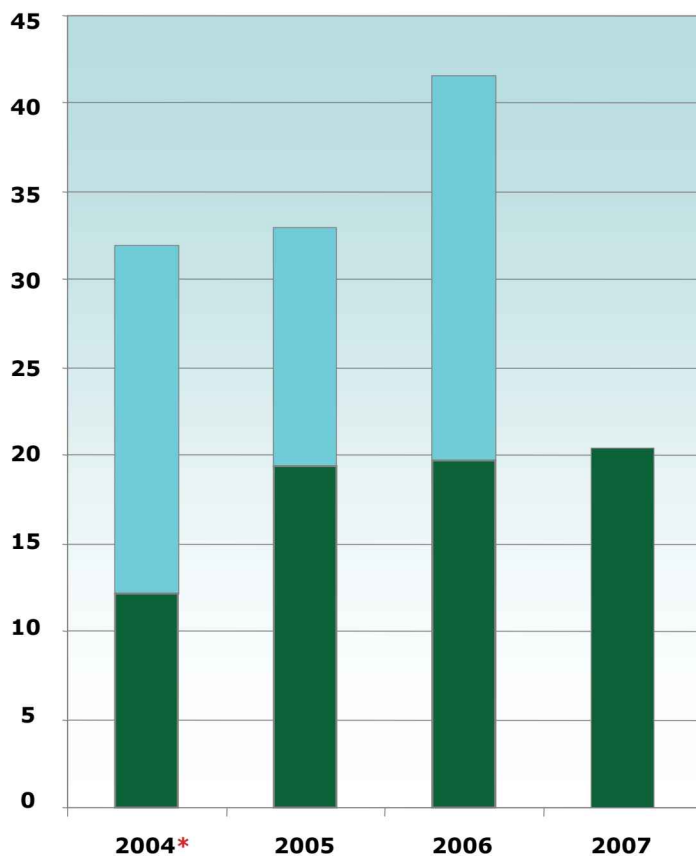


# Kier Residential performance



## Operating profit

£m



\* UK GAAP

■ 1<sup>st</sup> half ■ 2<sup>nd</sup> half

	Six months to 31 December		Year to 30 June	
	2006	2005	Change %	2006

Unit sales (units)	819	709	+15.5	1,522
Average selling price (£)	175,200	185,900	-5.8	180,100
Revenue from housing (£m)	143.5	131.8	+8.9	274.2
Land sale (£m)	8.3	3.0	+176.7	3.7
Total revenue (£m)	151.8	134.8	+12.6	277.9
Housing operating profit (£m)	20.2	19.5	+3.6	41.5
Operating margin %	14.1	14.8	-	15.1

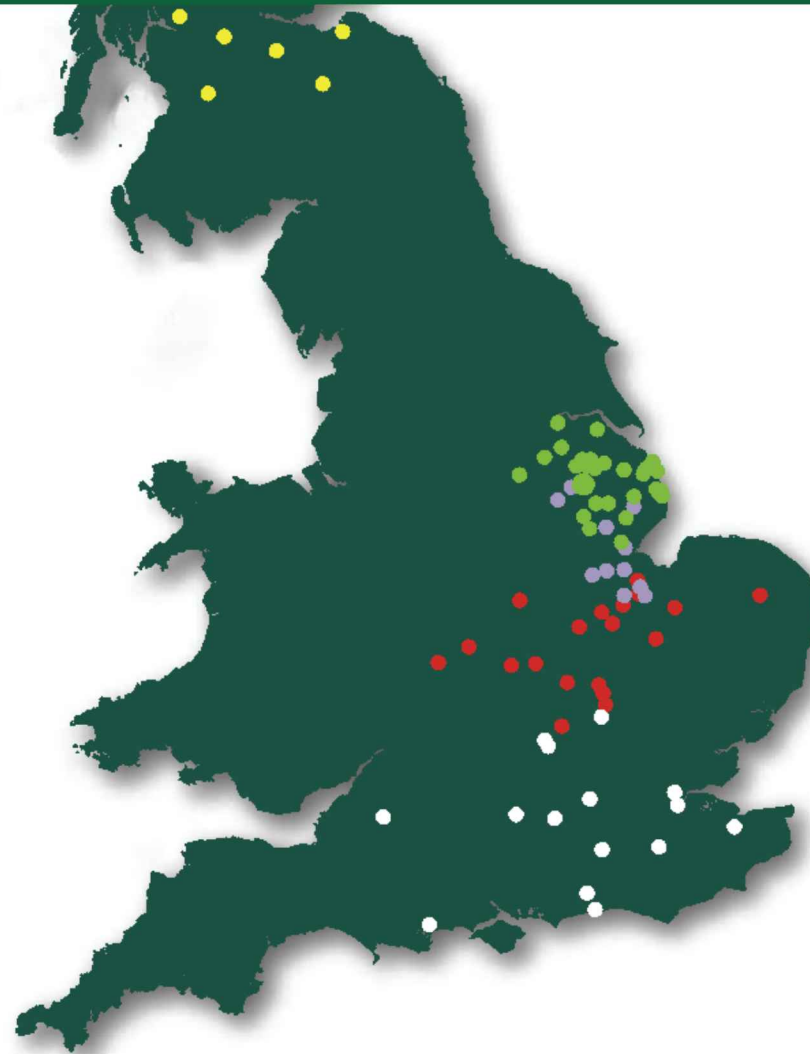
- 20.9% of total sales are affordable housing units (2005: 11.0%)
- Unit sales for the year biased towards second half

# Residential map



## Key

- Allison Homes
- Twigden Homes
- Bellwinch Homes
- Kier Homes
- Hugh Bourn



# Kier Residential

completions, average sales price and plot cost



Six months to 31 December

	2006 Units	2006 ASP (£)	2005 Units	2005 ASP (£)
Allison Homes	244	145,300	262	156,200
Bellwinch Homes	160	173,400	132	196,500
Hugh Bourn Homes	54	150,000	-	-
Kier Homes	133	205,600	104	209,900
Twigden Homes	228	196,800	211	204,500
	819	175,200	709	185,900
Average plot cost	-	40,000	-	45,100
Plot cost as a % of sales price	-	22.8%	-	24.3%
Land bank with planning consent (units)	-	7,004	-	5,600
Strategic land bank (units)	-	11,800	-	11,000

# Kier Residential

## key points



- Acquisition of Hugh Bourn in July 2006:
  - 1,200 residential plots
  - Forms fifth operating area for Kier Residential
- Order book at 28 February over 50% ahead of last year (43% excluding Hugh Bourn Homes)
- Over 80% unit sales secured for full year – sales biased towards second half
- Further land expenditure planned to maintain land bank at four years



- There is a significant gap between supply and rising demand for new homes
- Household growth is driven by:
  - Aging population
  - Divorce
  - Second homes
  - Immigration
- Latest projections are that households in England will grow by 209,000 per annum to 2026
- Over the last 30 years the number of households has increased by 30% and the level of housebuilding has decreased by 50%
- Annual completions have failed to rise above 185,000 in the last 15 years



## Property



**Kier Property**  
Commercial  
property  
development.

Revenue  
**£43.5m**

## Six months to 31 December      Year to 30 June

	2006 £m	2005 £m	2006 £m
Operating profit:			
Kier	5.6	2.9	4.2
Joint venture	3.6	2.5	5.0
	9.2	5.4	9.2

27 schemes	Gross development value	Floor space
7 office schemes	£396m	1.7m sq ft
16 industrial schemes	£204m	2.3m sq ft
4 retail schemes	£58m	0.1m sq ft
Including over 1,200 residential units	£187m	0.5m sq ft





- Sales biased to first half of the year, including two to Invista:
  - Mannington Retail Park
  - Reading Central

Both with future involvement from Kier

- Sale of Haverhill Retail Park
- Financial close on Ordnance Survey, Southampton
- Preferred bidder on Supreme Court, London



Reading Central



Haverhill Retail Park

# Kier Total Solutions



- Ashford: redevelopment of former rail land. Includes:

- 800 flats
- Retail space
- Involvement from:
  - Kier Residential
  - Kier Partnership Homes
  - Kier Regional
  - Kier Property



Ashford

- Ordnance Survey, Southampton. Includes:

- New headquarters for Ordnance Survey
- 450 houses/flats
- Retail and commercial development
- Involvement from:
  - Kier Property
  - Kier Regional
  - Kier Residential
  - Kier Support Services



Ordnance Survey

# Kier Project Investment



## Infrastructure Investment



### Kier Project Investment

Promotes and manages the Group's interests in the Private Finance Initiative bringing together Kier's expertise and resources in worldwide construction, property development, housing and facilities management.

Revenue

**£7.3m**

- Financial close on North Kent Police HQ
- Health and education PFI slowing
- New markets being explored including fire stations, social housing and prisons

# Kier Project Investment

## current projects



Sector	Project	Status	Capital value £m	Kier equity/ loan stock £m	Equity %
Health	Hairmyres Hospital	Operational	68	4.3	50
	West Berkshire Hospital	Operational	25	1.6	50
	Hinchingbrooke	Operational	19	1.1	50
	Ipswich Hospital	Construction	27	1.5	50
Local authority	Bournemouth Library	Operational	14	0.7	50
	Oldham Library	Operational	14	1.0	50
Education	Tendring Schools	Operational	18	0.5	50
	Waltham Schools	Operational	51	2.9	50
	Sheffield Schools	Operational	50	2.6	50
	Norwich Schools	Construction	39	1.6	50
	Oldham Schools	Construction	54	2.9	50
Others	Greenwich Care Homes	Operational	18	0.8	50
	North Kent Police HQ	Construction	25	1.3	42.5
<b>Committed investment</b>			-	<b>22.8</b>	-

Green: Kier construction and support services contractor Red: Kier construction contractor

**Shortlisted: Leicester Hospitals Scheme; Three Counties Police Investigation Centres**



# Prospects



- Combined order books for Construction and Support Services at record levels – strong pipeline of work close to award
- Homes order book at 28 February over 50% ahead of last year, over 80% of projected units for full year are secure
- Property Development: good pipeline of developments
- PFI: new markets are being explored
- Value from mixed-use developments combining skills from all areas of the Group including growing remediation capability
- Prospects are excellent for further profitable growth

# Five-year record

year ended 30 June



	2006 £m	IFRS 2005 £m	2004 £m	2003 £m	UK GAAP 2002 £m
Turnover	<b>1,838.3</b>	1,623.2	1,476.5	1,445.6	1,382.7
Operating profit (Group + JVs)	<b>63.2</b>	53.3	42.6	36.2	26.2
Total finance (cost)/income net	<b>(2.7)</b>	(4.3)	(2.0)	(0.6)	1.1
Joint venture tax	<b>(1.4)</b>	(1.2)	-	-	-
Other - exceptionals	-	6.7	-	(2.3)	0.7
Profit before tax	<b>59.1</b>	54.5	40.6	33.3	28.0
EPS - basic including exceptionals	<b>120.8p</b>	103.4p	81.5p	69.5p	60.4p
Dividend per share	<b>26.0p</b>	22.2p	19.0p	16.4p	14.2p
Shareholders' funds	<b>£108.5m</b>	£52.8m	£116.4m	£92.7m	£73.8m