KIER

News Release

For release at 0700 hours on 20 March 2019

Kier Group plc, a leading infrastructure services, buildings and developments & housing group, announces its results for the six months ended 31 December 2018

Underlying[1,4]			
	Six months ended 31 December 2018	**Six months ended 31 December 2017[2]**	***Change %***
Revenue[3]	**£2,201.5m**	**£2,149.9m**	***+2***
Profit from operations	**£51.8m**	**£60.6m**	***-15***
Operating margin	**2.4%**	**2.8%**	
Profit before tax	**£39.0m**	**£49.4m**	***-21***
Basic earnings per share	**30.8p**	**40.9p**	***-25***
Net debt	**£180.5m**	**£238.5m**	
Statutory			
	Six months ended 31 December 2018	**Six months ended 31 December 2017[2]**	***Change %***
Group revenue	**£2,064.7m**	**£2,007.3m**	***+3***
(Loss)/profit from operations	**£(20.9)m**	**£48.1m**	
(Loss)/profit before tax	**£(35.5)m**	**£34.3m**	
Basic earnings per share	**(28.9)p**	**28.7p**	
Interim dividend per share	**4.9p**	**23.0p**	

Financial summary

- Revenue of £2.2bn (H1 FY18: £2.1bn)
- Underlying operating profit of £51.8m (H1 FY18: £60.6m), after £10m net costs from the Future Proofing Kier programme
- Non-underlying charges of £59.9m
- Net debt position as at 31 December 2018 of £180.5m (December 2017: £238.5m)
- Average month-end net debt for the period of £430m (H1 FY18: c.£350m)
- Rights issue completed in December 2018 to strengthen the balance sheet
- Basic earnings per share of 30.8p (H1 FY18: 40.9p)[5]
- Interim dividend of 4.9p.[5]

Future Proofing Kier (FPK) programme

- Delivered savings of £4m, with implementation costs of £14m, in H1 FY19
- FY19 forecast to be earnings and cash flow neutral
- Net savings of £20m anticipated in FY20
- Continued progress on disposal programme; sale of Kier Highways Services Australia completed in December 2018.

Operational highlights

- Order book of c.£10bn (H1 FY18: £9.8bn)
- £2.1bn of new contract wins during the period
- 9 property scheme sales completed in the period
- 842 new residential units delivered (H1 FY18: 965)
- Advanced stages of negotiations to exit significant loss-making waste collection contract.

Continued ....

1. *Financial information in the table above relates to continuing operations.*
2. *Restated to classify Wheldon Contracts & Services as discontinued.*
3. *Group and share of joint ventures.*
4. *Stated before non-underlying items – see note 3 to the interim financial statements.*
5. *Reflecting the adjustment to the number of shares following the rights issue.*

Commenting on the outlook, Philip Cox, Executive Chairman, said; *"Our regional building and property development businesses continue to operate well, although we are experiencing some volume pressures in the highways, utilities and housing maintenance markets.*

The Group has a significantly strengthened balance sheet following the completion of the rights issue in December 2018. The Board continues to focus on simplifying the Group, improving cash flow generation and net debt reduction, and forecasts a net cash position at 30 June 2019.

Whilst the Board notes the current political and economic uncertainty in the UK, and the implications for third party investment, the Group is maintaining its underlying FY19 expectations, with the full-year results being weighted towards the second-half of the financial year, as expected."

- ENDS -

There will be a presentation of the results to analysts and investors at 0900 hours GMT on 20 March 2019 at etc.venues St. Pauls, 200 Aldersgate, London, EC1A 4HD and a live webcast: https://www.investis-live.com/kier/5c5c5850cad1ac0c008dab1e/qeqe which will also be recorded and made available later in the day on Kier's website.

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EXECUTIVE CHAIRMAN'S STATEMENT

Overview

Following the announcement on 22 January 2019 that Haydn Mursell would stand down as Chief Executive, I assumed the role of Executive Chairman.

I am pleased to announce the Group's results for the six months ended 31 December 2018. Revenue for the period was £2.2bn (H1 FY18: £2.1bn) and underlying operating profit was £51.8m (H1 FY18: £60.6m). Net debt at 31 December 2018 was £180.5m and average month-end net debt for the period was £430m. These net debt figures include the net proceeds from the December 2018 rights issue (the Rights Issue), which resulted in a reduction in the Group's trade creditors and significantly strengthened its balance sheet. The Group's order book was c.£10bn at 31 December 2018 (H1 FY18: £9.8bn), following c.£2.1bn of awards in the period.

Following its launch in June 2018, the Future Proofing Kier (FPK) programme has continued to progress well. The programme aims to streamline the business, drive operational efficiencies and improve profitability. The costs of implementing the programme in H1 FY19 were £14m, with associated savings of £4m. We continue to expect the FPK programme to be earnings and cash flow neutral in FY19 and anticipate that it will deliver annual savings of £20m in FY20. We continued to make progress on disposals and, in December 2018, completed the sale of Kier Highways Services Australia.

Our safety performance continues to improve, with the Group's accident incidence rate (AIR) at 31 December 2018 being 79, a 40% improvement year-on-year and significantly below the average for the sector.

We are pleased to report that Andrew Davies will join the Group as Chief Executive with effect from 15 April 2019. Andrew was the Chief Executive Officer of Wates Group Limited from 2014 to 2018 and spent over 28 years with BAE Systems plc, undertaking a range of senior operational and corporate roles, including Group Strategy Director and, latterly, Managing Director of the Maritime Division. Andrew brings a strong track record of business leadership and operational experience and, on behalf of the Board, I would like to welcome Andrew to the Group.

Outlook

Our regional building and property development businesses continue to operate well, although we are experiencing some volume pressures in the highways, utilities and housing maintenance markets.

The Group has a significantly strengthened balance sheet following the completion of the Rights Issue. The Board continues to focus on simplifying the Group, improving cash flow generation and net debt reduction, and forecasts a net cash position at 30 June 2019.

Whilst the Board notes the current political and economic uncertainty in the UK, and the implications for third party investment, the Group is maintaining its underlying FY19 expectations, with the full-year results being weighted towards the second-half of the financial year, as expected.

FINANCIAL REVIEW

Summary of underlying results

The Group's results for the six months ended 31 December 2018 reflect the adoption of IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) and are presented under the Group's new reporting structure.

The Group's underlying revenue, including its share of revenue from joint ventures, for the period was £2.2bn, an increase of 2% compared to the equivalent period in FY18:

- Infrastructure Services' revenue increased by 8%;
- Buildings' revenue increased by 10%; and
- Developments & Housing's revenue reduced by 19%.

The Group's underlying operating profit for the period of £51.8m reflects net costs of £10m relating to the implementation of the FPK programme. In particular:

- In the Infrastructure Services division, margins decreased to 4.3% (H1 FY18: 4.9%), principally as a result of the change in the overall mix of work from maintenance to lower value capital projects;
- In the Buildings division, margins increased to 3.4% (H1 FY18: 2.1% (including c.£8m of non-recurring exit costs relating to the Hong Kong and Caribbean operations));
- In the Developments & Housing division, margins reduced from to 4.3% (H1 FY18: 5%), principally as a result of a reduction of volumes. The businesses reported a ROCE of 14% and 9%, respectively; and
- Central costs increased by 55% to £34.2m, reflecting £14m of gross FPK implementation costs.

Net financing costs
Underlying net financing costs for the period of £12.8m (H1 FY18: £11.2m) increased in line with average month-end net debt for the period.

Taxation
The underlying tax charge for the period of £7.6m (H1 FY18: £8.5m) represents an effective corporation tax rate of 20.5% (H1 FY18: 17%) and includes the effect of joint venture tax.

Non-underlying charges
The Group is reporting the following charges:

- ***Curtailment of a loss-making waste collection contract:*** the Group is in the advanced stages of negotiation with respect to the early termination of a significant loss-making waste collection contract. A non-underlying provision of £26m has been made in respect of the anticipated phased settlement payments to be made to the client between FY20 – FY26, which would be more than offset by the savings resulting from the termination.
- ***Broadmoor Hospital redevelopment project:*** as announced on 11 March 2019, a £25m non-underlying provision has been taken in respect of future recoveries from the client and other third parties.
- ***Disposals:*** in the period, the Group sold its interests in Kier Highways Services Australia, its pension administration business and The Unity Partnership Limited for an aggregate cash consideration of £29.7m and a total loss of £0.8m after the application of non-cash goodwill and contract rights of £17.3m, net of deferred tax.
- ***Pension***: following a court ruling relating to the Guaranteed Minimum Pension in October 2018, the Group's actuaries have recommended the recognition of a £6.1m equalisation charge in respect of the Group's final salary pension schemes. There is no cash impact associated with this charge.
- ***McNicholas acquisition:*** the Group has incurred £5.4m of non-recurring costs relating to the integration of the McNicholas business into the Group's utilities business. These costs have been offset by the reversal of a provision for deferred consideration of £5.5m.

The net cash inflow associated with the above items is £17.5m. £16.0m was reported as the net cash balances within the disposed businesses at 30 June 2018.

Earnings per share
Underlying earnings per share from continuing operations (EPS) was 30.8p (H1 FY18: 40.9p). The weighted average number of shares in issue for the period of 103.1m reflects the shares issued in connection with the Rights Issue. EPS for prior periods has been restated to reflect the application of the adjustment factor of 1.0176, being the bonus element of the new shares issued in connection with the Rights Issue.

Net debt
The Group's net debt position of £180.5m at 31 December 2018 (H1 FY18: £238.5m) and average month-end net debt of £430m for the period (H1 FY19: £350m) reflect the net proceeds of the Rights Issue.

The total net working capital outflow in the period of £220m was materially higher than in prior years. This outflow comprised a £97m reduction in trade payables, an increase in net work-in-progress of £97m arising from a reduction in payments in advance of costs in December 2018 and an increase of £26m in work-in-progress in the Residential business following delays in unit completions. This compares to average working capital outflows of £56m over the first six months of the preceding three financial years.

Supplier utilisation of the Kier supply chain finance facility has increased to an average during the period of £196m (H1 FY18: £176m). The differential between average daily net debt and average month-end net debt during the period was c.£90m.

The Group reported average payment terms (excluding McNicholas) of 55 days for the period under the Reporting on Payment Practices and Performance Regulations, an improvement of two days on the period ended 30 June 2018. The reported figure is based on the volume of transactions processed by the Group.

Financial Reporting Standards
Impact of IFRS 9 (Financial Instruments)
The implementation of IFRS 9 relates primarily to hedge accounting and the classification, measurement and impairment of financial assets.

The adoption of IFRS 9 has had no material impact on the Group's interim financial statements.

Impact of IFRS 15 (Revenue from Contracts and Customers)
The Group has made £43.1m of opening reserves adjustments, net of tax, as a result of the transition to IFRS 15. Whilst IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract.

These adjustments relate to:

- Transitioning from revenue recognition based on external progress valuation to internal cost (£14.2m);
- Certain claims receivable from non-customer third parties which, under IAS 37, now require recovery to be "virtually certain" (£24.6m);
- Disaggregation of performance criteria relating to a single IT service contract (£3.4m);
- Derecognition of variations on a contract in the Middle East (£9.7m); and
- Less the deferred tax credit on the above at 17% (£8.8m).

The total reversal of these adjustments resulted in a non-cash credit of £10.4m, after tax.

Impact of IFRS 16 (Leases)
The Group continues to work on assessing the impact of IFRS 16, which will be adopted in FY20. The Group will provide an update on the impact of adopting IFRS 16 in due course.

Financial Reporting Council (FRC) Corporate Reporting Review
The Company continues to engage with the FRC with respect to the FRC's letter of 30 July 2018 about the Company's 2017 Annual Report (as referred to on page 78 of the 2018 Annual Report). The principal outstanding issues relate to: (i) the Company's accounting treatment of certain joint ventures in its property and residential businesses, as referred to on page 33 of the Company's Rights Issue prospectus dated 30 November 2018; and (ii) the basis of revenue recognition of certain items.

Order book
The combined order book was c.£10.0bn at 30 June 2018 (H1 2018: £9.8bn (adjusted for the disposal of Kier Highways Service Australia)).

Retirement benefit obligation
The overall pension position has moved from a post-tax surplus of £8m at 30 June 2018 to a deficit of £14m at 31 December 2018. This movement was primarily driven by the recent performance of the schemes' assets and the recognition of the Guaranteed Minimum Pension equalisation charge of £6.1m. The Group's cash contributions in the period to the actuarial deficit were £12m. The revised triennial actuarial valuation of the Group's principal schemes commences on 31 March 2019.

Dividend
An interim dividend of 4.9p (H1 FY18: 23.0p), amounting to £8m, will be paid on 17 May 2019 to shareholders on the register at the close of business on 29 March 2019. 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 is 5.30 p.m. (London time) on 25 April 2019.

Principal risks and uncertainties
The principal risks and uncertainties relating to the Group continue to be those which are set out on pages 38 – 43 of the Group's annual report and accounts relating to the Group for the year ended 30 June 2018. These comprise safety; health and sustainability; regulation; funding; market and sector performance; operating model; contract management; pre-contract governance; people; innovation; cyber-security and the impact of Brexit. In addition, the risks referred to in the section of the Company's Rights Issue prospectus dated 30 November 2018 entitled "Risk factors" continue to apply.

OPERATIONAL REVIEW
The Group is reporting its operations under Infrastructure Services, Buildings and Developments & Housing.

	Revenue six months ended 31 December £m		Change %	Underlying operating profit six months ended 31 December £m		*Change %*
	2018	**2017**		**2018**	**2017**	
Infrastructure Services	**867.7**	801.5	*+8*	**37.2**	39.3	*-5*
Buildings	**914.7**	832.1	*+10*	**30.8**	17.7	*+74*
Developments & Housing	**419.1**	516.3	*-19*	**18.0**	25.7	*-30*

Infrastructure Services *(Highways, Utilities & Rail and Major Projects – Infrastructure)*
Revenues increased by 8% to £867.7m (H1 FY18: £801.5m), generating an underlying operating profit of £37.2m (H1 FY18: £39.3m) and an operating margin of 4.3% (H1 FY18: 4.9%), reflecting the change in mix of revenues. The Infrastructure Services businesses' order book at 31 December 2018 increased to c.£6.0bn (30 June 2018: £5.5bn).

In Highways, Kier was appointed in November 2018 to a new six-year framework to deliver capital schemes for Highways England in the north of England and has continued to deliver four schemes across the M6, M20 and M23, with one scheme nearing completion.

Within the Highways England £17bn five-year Road Investment Strategy (RIS1) programme, the business is experiencing some volume pressures. During the period, the business reported an increase in turnover from capital projects awarded, but a reduction in turnover from maintenance projects.

In Utilities, the Group was awarded the Gigaclear contract for high-speed networks in Devon and Somerset, new contracts totalling c.£250m by Anglian Water, as part of AMP7, and an additional contract by Western Power Distribution. In early March 2019, the business was awarded a place on the five-year £50m Severn Trent Water civils framework.

In Major Projects – Infrastructure, the Group secured new work under the Hinkley Point C framework. In the transport sector, work continues on HS2 where we are working collaboratively with the client to scope the programme while ensuring an appropriate risk allocation for the Group. Work continues on the remaining landscaping and site clearing at the Mersey Gateway project, with the claims recovery process continuing.

Infrastructure Services outlook
In Highways, the business has identified a number of opportunities for new local authority contracts and anticipates a continued change in the mix of work awarded to it by Highways England. In Utilities, although current trading remains positive, the Group anticipates pressure on volumes in the second half of the year.

Buildings *(Regional Building, Major Projects - Building, International and Facilities Management)*
The Buildings businesses delivered a good performance, with revenue increasing by 10% to £914.7m (H1 FY18: £832.1m), generating an underlying operating profit increase of 74% to £30.8m (H1 FY18: £17.7m). Underlying operating margins were 3.4% (H1 FY18: 2.1%) and the businesses have an order book of c.£3.6bn (30 June 2018: £3.8bn). Over £0.7bn of new contracts were secured during the period, a significant number of which were under frameworks.

Regional Building secured a number of new opportunities across different market sectors, including education and health, principally through frameworks. These include: the Department for Education framework, Priority Schools Building Programme 2 (PSPB), Procure 22, Buildings for Wales, Health Facilities Scotland, Scape, North West Construction Hub, Westworks, Procure North West and the recently secured Southern Construction framework.

In the defence sector, significant contracts awarded to the Group in the period included the £160m F35 Beddown scheme at RAF Lakenheath, in joint venture, and additional work for the Army Basing Programme at MOD Lyneham.

In the Major Projects - Building business, a number of major projects are nearing completion, including the Abcam headquarters in Cambridge and a new University of Cambridge laboratory. In addition, the Group secured a number of new awards in the period, including the £125m office development at King's Cross, London, and has been appointed as the preferred bidder for a major redevelopment for British Land in London.

The first phase of the Broadmoor Hospital redevelopment project is expected to be handed over shortly. A £25m non-underlying provision has been taken in respect of future recoveries from the client and other third parties.

The Facilities Management business continues to focus on seeking to exit under-performing contracts, reducing overhead and recovering work in progress.

In the Middle East, the five-star Saadiyat Beach Rotana hotel, the Nshama Barsha residential project and the Bluewaters island development were completed during the period. Contract awards in the period amounted to £89m and included infrastructure contracts on Expo 2020 and on the Dubai Harbour development.

Buildings outlook
Regional Building has seen a good start to the second half of the financial year, with its breadth of sectors and clients providing the business with resilience. The business has recently secured places on a number of frameworks, such as the £5.2bn Southern Construction framework, and expects to continue to identify opportunities for future growth.

Developments & Housing *(Property Development, Residential House Building, Housing Maintenance and Environmental Services)*
Revenues were £419.1m (H1 FY18: £516.3m), generating an underlying operating profit of £18.0m (H1 FY18: £25.7m), principally reflecting reductions in housing completions in the period (as compared to H1 FY18) and housing maintenance volumes. Investment capital in these businesses continues to be capped at £500m.

In Property, revenues were £106m (H1 FY18: £138m) generating an underlying operating profit of £11.6m (H1 FY18: £12.2m) and a ROCE of 14%. The business completed nine (9) sales in the period, as compared to five (5) in the equivalent period in FY18. The majority of the Group's development schemes are outside central London, with opportunities across a range of sectors and regions. During the period, the Group identified opportunities in the industrial, office and residential market sectors. The business has a good pipeline of forward sold work and expects to complete a number of projects in the second half of the financial year. In February 2019, the Group was awarded the £180m contract for the Pall Mall regeneration project in Liverpool by Liverpool City Council.

In Residential, revenues were £151m (H1 FY18: £166m), with an operating profit of £9.1m (H1 FY18: £8.7m). The business reported a sales rate of 0.8 units per sales outlet per week (H1 FY18: 0.7), although unit completions at 842 (H1 FY18: 965) were impacted by delays in planning and on-site start-ups. ROCE was 9% and the landbank comprised 4,739 units at 31 December 2018 (H2 FY18: 3,897).

The housing maintenance market continues to be influenced by the budgetary pressures experienced by housing associations and local authorities. During the period, the Housing Maintenance business experienced a reduction in revenue (as compared to H1 FY18), following the conclusion of the Stoke contract and the imminent in-sourcing of the North Tyneside contract.

In Environmental Services, the Group is in the advanced stages of negotiations with respect to the early termination of a significant loss-making waste collection contract. Please see "Financial Review - non-underlying charges" above for further information.

Developments & Housing outlook
The Property business' forward sold strategy has supported a good performance in the period and the business remains on course to deliver its FY19 financial targets. In Residential, although the business' sales rates remain good, the Group's principal focus in the second half of the financial year will be to deliver the required rate of unit completions, with an increasing number of sites being managed through joint ventures. In the Housing Maintenance business, the focus on streamlining the business and operational efficiency will continue.

Consolidated income statement

For the six months ended 31 December 2018

				Unaudited 6 months to 31 December 2018			Unaudited 6 months to 31 December 2017[1,2]			Year to 30 June 2018[2]
Continuing operations	Notes	**Underlying items[3] £m**	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items[3] £m	Non-underlying items (note 3) £m	Total £m	Underlying items[3] £m	Non-underlying items (note 3) £m	Total £m
Revenue[4]										
Group and share of joint ventures	2	**2,201.5**	**(12.7)**	**2,188.8**	2,149.9	11.9	2,161.8	4,493.3	19.5	4,512.8
Less share of joint ventures	2	**(124.1)**	**-**	**(124.1)**	(154.5)	-	(154.5)	(273.2)	-	(273.2)
Group revenue		**2,077.4**	**(12.7)**	**2,064.7**	1,995.4	11.9	2,007.3	4,220.1	19.5	4,239.6
Cost of sales		**(1,857.7)**	**(39.3)**	**(1,897.0)**	(1,820.6)	(11.9)	(1,832.5)	(3,818.2)	(19.5)	(3,837.7)
Gross profit/(loss)		**219.7**	**(52.0)**	**167.7**	174.8	-	174.8	401.9	-	401.9
Administrative expenses		**(182.1)**	**(19.9)**	**(202.0)**	(137.6)	(12.5)	(150.1)	(288.1)	(25.6)	(313.7)
Share of post-tax results of joint ventures		**14.2**	**-**	**14.2**	22.8	-	22.8	42.7	-	42.7
Profit/(loss) on disposal of joint ventures and subsidiaries		**-**	**(0.8)**	**(0.8)**	0.6	-	0.6	3.5	-	3.5
Profit/(loss) from operations	2	**51.8**	**(72.7)**	**(20.9)**	60.6	(12.5)	48.1	160.0	(25.6)	134.4
Finance income		**1.0**	**-**	**1.0**	0.5	-	0.5	0.9	-	0.9
Finance cost		**(13.8)**	**(1.8)**	**(15.6)**	(11.7)	(2.6)	(14.3)	(24.0)	(5.1)	(29.1)
Profit/(loss) before tax		**39.0**	**(74.5)**	**(35.5)**	49.4	(15.1)	34.3	136.9	(30.7)	106.2
Taxation	5	**(7.6)**	**12.9**	**5.3**	(8.5)	3.1	(5.4)	(23.3)	5.6	(17.7)
Profit/(loss) for the period from continuing operations		**31.4**	**(61.6)**	**(30.2)**	40.9	(12.0)	28.9	113.6	(25.1)	88.5
Discontinued operations										
Profit/(loss) for the period from discontinued operations		**-**	**-**	**-**	(0.6)	-	(0.6)	(1.0)	-	(1.0)
Profit/(loss) for the period		**31.4**	**(61.6)**	**(30.2)**	40.3	(12.0)	28.3	112.6	(25.1)	87.5
Attributable to:										
Owners of the parent		**30.8**	**(60.6)**	**(29.8)**	39.8	(12.0)	27.8	112.4	(25.1)	87.3
Non-controlling interests		**0.6**	**(1.0)**	**(0.4)**	0.5	-	0.5	0.2	-	0.2
		31.4	**(61.6)**	**(30.2)**	40.3	(12.0)	28.3	112.6	(25.1)	87.5
Earnings per share										
Basic earnings per share										
From continuing operations	7	**30.8p**	**(59.7)p**	**(28.9)p**	40.9p	(12.2)p	28.7p	114.7p	(25.4)p	89.3p
From discontinued operations	7	**-**	**-**	**-**	(0.6)p	-	(0.6)p	(1.0)p	-	(1.0)p
Total		**30.8p**	**(59.7)p**	**(28.9)p**	40.3p	(12.2)p	28.1p	113.7p	(25.4)p	88.3p
Diluted earnings per share										
From continuing operations	7	**30.8p**	**(59.7)p**	**(28.9)p**	40.6p	(12.1)p	28.5p	113.4p	(25.1)p	88.3p
From discontinued operations	7	**-**	**-**	**-**	(0.6)p	-	(0.6)p	(1.0)p	-	(1.0)p
Total		**30.8p**	**(59.7)p**	**(28.9)p**	40.0p	(12.1)p	27.9p	112.4p	(25.1)p	87.3p

[1] Restated to reclassify Wheldon Contracts & Services as discontinued.
[2] Earnings per share for the six months to 31 December 2017 and year to 30 June 2018 restated as a result of the rights issue which completed on 20 December 2018, see note 7 to the financial statements.
[3] Stated before non-underlying items, see note 3 to the financial statements.
[4] Non-underlying revenue for the six months to 31 December 2017 and year to 30 June 2018 relates exclusively to UK Mining operations. Non-underlying revenue for the six months to 31 December 2018 relating to the UK Mining operations of £2.3m is presented net of a £15.0m revenue adjustment with respect to the Group's Broadmoor Hospital development project (see note 3 for further details).

Consolidated statement of comprehensive income

For the six months ended 31 December 2018

	Unaudited 6 months to 31 December 2018 £m	Unaudited 6 months to 31 December 2017 £m	Year to 30 June 2018 £m
(Loss)/profit for the period	**(30.2)**	**28.3**	**87.5**
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**-**	0.1	0.4
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	**-**	-	(0.1)
Share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement	**-**	-	2.3
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement	**-**	-	(0.4)
Fair value gain/(loss) on cash flow hedging instruments	**6.5**	(5.8)	(3.4)
Fair value movements on cash flow hedging instruments recycled to the income statement	**(4.3)**	3.8	1.6
Deferred tax on fair value movements on cash flow hedging instruments	**(0.4)**	0.3	0.3
Foreign exchange gains/(losses) on long-term funding of foreign operations	**4.6**	0.2	(0.2)
Foreign exchange translation differences	**(3.1)**	(1.7)	(0.3)
Foreign exchange movements recycled to the income statement	**(0.6)**	-	(0.9)
Total items that may be reclassified subsequently to the income statement	**2.7**	**(3.1)**	**(0.7)**
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	**(30.2)**	59.8	79.8
Deferred tax credit/(charge) on actuarial (losses)/gains on defined benefit liabilities	**5.1**	(10.2)	(13.6)
Total items that will not be reclassified to the income statement	**(25.1)**	**49.6**	**66.2**
Other comprehensive (loss)/income for the period	**(22.4)**	**46.5**	**65.5**
Total comprehensive (loss)/income for the period	**(52.6)**	**74.8**	**153.0**
Attributable to:			
Owners of the parent	**(52.2)**	74.3	152.8
Non-controlling interests – continuing operations	**(0.4)**	0.5	0.2
	(52.6)	**74.8**	**153.0**
Total comprehensive (loss)/income attributable to equity shareholders arises from:			
Continuing operations	**(52.2)**	74.9	153.8
Discontinued operations	**-**	(0.6)	(1.0)
	(52.2)	**74.3**	**152.8**

Consolidated statement of changes in equity

For the six months ended 31 December 2018

Unaudited	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 interests £m	**Total equity £m**
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**
Profit/(loss) for the period	-	-	-	59.5	-	-	-	**59.5**	(0.3)	**59.2**
Other comprehensive income	-	-	-	16.6	2.3	0.1	-	**19.0**	-	**19.0**
Dividends paid	-	-	-	(22.4)	-	-	-	**(22.4)**	(0.8)	**(23.2)**
Share-based payments	-	-	-	2.1	-	-	-	**2.1**	-	**2.1**
Purchase of own shares	-	-	-	(0.8)	-	-	-	**(0.8)**	-	**(0.8)**
At 30 June 2018	**1.0**	**435.0**	**2.7**	**27.6**	**(5.0)**	**3.3**	**134.8**	**599.4**	**1.7**	**601.1**
Impact of adopting IFRS 15 (note 17)	-	-	-	(43.1)	-	-	-	**(43.1)**	-	**(43.1)**
At 1 July 2018	**1.0**	**435.0**	**2.7**	**(15.5)**	**(5.0)**	**3.3**	**134.8**	**556.3**	**1.7**	**558.0**
Loss for the period	-	-	-	(29.8)	-	-	-	**(29.8)**	(0.4)	**(30.2)**
Other comprehensive (loss)/income	-	-	-	(25.1)	1.8	0.9	-	**(22.4)**	-	**(22.4)**
Dividends paid	-	-	-	(44.7)	-	-	-	**(44.7)**	(1.6)	**(46.3)**
Issue of own shares	0.6	249.3	-	-	-	-	-	**249.9**	-	**249.9**
Share-based payments	-	-	-	5.1	-	-	-	**5.1**	-	**5.1**
Purchase of own shares	-	-	-	(0.5)	-	-	-	**(0.5)**	-	**(0.5)**
At 31 December 2018	**1.6**	**684.3**	**2.7**	**(110.5)**	**(3.2)**	**4.2**	**134.8**	**713.9**	**(0.3)**	**713.6**

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

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m that were charged against the share premium account.

Consolidated balance sheet

At 31 December 2018

	Notes	Unaudited 31 December 2018 £m	Unaudited 31 December 2017[1] £m	30 June 2018 £m
Non-current assets				
Intangible assets		**829.9**	866.6	862.2
Property, plant and equipment		**83.7**	89.1	91.6
Investments in and loans to joint ventures		**238.3**	188.4	226.1
Capitalised mobilisation costs		**8.6**	-	-
Deferred tax assets		**13.4**	7.5	-
Contract assets		**21.2**	-	-
Trade and other receivables		**15.6**	52.9	49.2
Retirement benefit assets	4	**33.4**	38.6	39.5
Non-current assets		**1,244.1**	1,243.1	1,268.6
Current assets				
Inventories		**286.5**	588.7	575.0
Contract assets		**456.5**	-	-
Trade and other receivables		**466.5**	530.5	603.0
Corporation tax receivable		**8.5**	-	15.4
Other financial assets	14	**21.7**	12.8	15.2
Cash and cash equivalents	9	**434.0**	415.0	330.9
Current assets		**1,673.7**	1,547.0	1,539.5
Assets held for sale as part of a disposal group	8	**12.0**	0.8	1.3
Total assets		**2,929.8**	2,790.9	2,809.4
Current liabilities				
Borrowings	9	**(49.7)**	-	(12.0)
Finance lease obligations		**(2.3)**	(5.6)	(4.0)
Trade and other payables	10	**(1,270.3)**	(1,382.1)	(1,526.8)
Contract liabilities		**(125.3)**	-	-
Corporation tax payable		**-**	(5.7)	-
Provisions		**(17.8)**	(15.1)	(15.4)
Current liabilities		**(1,465.4)**	(1,408.5)	(1,558.2)
Liabilities held for sale as part of a disposal group	8	**-**	(3.0)	(3.4)
Non-current liabilities				
Borrowings	9	**(589.4)**	(671.6)	(524.9)
Finance lease obligations		**(2.1)**	(3.0)	(3.1)
Other financial liabilities	14	**-**	(0.1)	-
Trade and other payables		**(34.3)**	(30.0)	(24.2)
Retirement benefit obligations	4	**(49.9)**	(61.9)	(31.6)
Provisions		**(75.1)**	(68.0)	(52.1)
Deferred tax liability		**-**	-	(10.8)
Non-current liabilities		**(750.8)**	(834.6)	(646.7)
Total liabilities		**(2,216.2)**	(2,246.1)	(2,208.3)
Net assets		**713.6**	544.8	601.1
Equity				
Share capital		**1.6**	1.0	1.0
Share premium		**684.3**	435.0	435.0
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**(110.5)**	(27.4)	27.6
Cash flow hedge reserve		**(3.2)**	(7.3)	(5.0)
Translation reserve		**4.2**	3.2	3.3
Merger reserve		**134.8**	134.8	134.8
Equity attributable to owners of the parent		**713.9**	542.0	599.4
Non-controlling interests		**(0.3)**	2.8	1.7
Total equity		**713.6**	544.8	601.1

[1] Prior period restated to move £17.1m from current to non-current other receivables in regard to PFI lifecycle funds.

Consolidated cash flow statement

For the six months ended 31 December 2018

	Notes	Unaudited 6 months to 31 December 2018 £m	Unaudited 6 months to 31 December 2017[1] £m	Year to 30 June 2018 £m
Cash flow from operating activities				
Profit/(loss) before tax – continuing operations		**(35.5)**	34.3	106.2
– discontinued operations		**-**	(0.6)	(1.0)
Non-underlying items excluding amortisation, depreciation and finance costs		**59.7**	-	-
Net finance cost		**14.6**	13.8	28.2
Share of post-tax trading results of joint ventures		**(14.2)**	(22.8)	(42.7)
Normal cash contributions to pension fund in excess of pension charge		**0.2**	0.9	0.8
Equity settled share-based payments charge		**5.1**	3.3	5.4
Amortisation of intangible assets less negative goodwill recognised		**25.1**	17.1	37.7
Research and development expenditure credit		**(3.3)**	(1.5)	(8.6)
Depreciation charges		**7.1**	9.9	19.1
Profit on disposal of joint ventures and subsidiaries		**-**	(0.6)	(3.5)
Profit/(loss) on disposal of property, plant and equipment and intangible assets		**1.4**	(1.8)	(0.8)
Operating cash inflows before movements in working capital		**60.2**	52.0	140.8
Deficit contributions to pension fund		**(11.9)**	(14.5)	(26.6)
(Increase)/decrease in inventories		**(35.7)**	7.2	33.4
(Increase)/decrease in receivables		**(15.6)**	39.9	(29.4)
Increase in contract assets		**(50.1)**	-	-
(Decrease)/increase in payables		**(48.9)**	(94.8)	32.5
Decrease in contract liabilities		**(68.1)**	-	-
Decrease in provisions		**(1.8)**	(8.6)	(9.9)
Cash (outflow)/inflow from operating activities before non-underlying items		**(171.9)**	(18.8)	140.8
Cash outflow from operating activities (non-underlying items)		**(10.5)**	(15.0)	(32.0)
Cash (outflow)/inflow from operating activities		**(182.4)**	(33.8)	108.8
Dividends received from joint ventures		**25.1**	52.6	30.5
Interest received		**1.0**	0.5	0.9
Income tax received/(paid)		**11.1**	0.2	(9.9)
Net cash (outflow)/inflow from operating activities		**(145.2)**	19.5	130.3
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**-**	3.6	3.6
Proceeds from sale of joint ventures		**-**	-	4.9
Proceeds from sale of subsidiary		**-**	-	0.1
Proceeds from sale of subsidiary (non-underlying)		**12.0**	-	-
Purchase of property, plant and equipment		**(5.5)**	(8.8)	(22.1)
Purchase of intangible assets		**(11.2)**	(26.5)	(41.2)
Purchase of capitalised mobilisation costs		**(1.8)**	-	-
Acquisition of subsidiaries		**-**	(14.3)	(16.7)
Investment in joint ventures		**(35.2)**	(35.3)	(71.5)
Return of equity from joint ventures		**-**	-	40.6
Classification (from)/to assets held for sale		**(2.1)**	2.5	2.1
Net borrowings acquired with subsidiaries		**-**	(6.1)	(6.1)
Net cash used in investing activities		**(43.8)**	(84.9)	(106.3)
Cash flows from financing activities				
Issue of shares		**255.5**	0.2	0.2
Purchase of own shares		**(0.5)**	(0.5)	(1.3)
Interest paid		**(12.1)**	(10.7)	(21.7)
Cash outflow incurred raising finance		**-**	(2.3)	(2.0)
Inflow from finance leases on property, plant and equipment		**-**	-	2.5
Inflow from borrowings		**96.7**	96.3	-
Finance lease repayments		**(2.7)**	(6.1)	(10.2)
Repayment of borrowings		**-**	(50.4)	(91.3)
Dividends paid to equity holders of the parent		**(44.7)**	(43.7)	(66.1)
Dividends paid to non-controlling interests		**(1.6)**	(0.7)	(1.5)
Net cash from/(used in) financing activities		**290.6**	(17.9)	(191.4)
Increase/(decrease) in cash, cash equivalents and overdraft		**101.6**	(83.3)	(167.4)
Effect of change in foreign exchange rates		**1.5**	(1.5)	(1.5)
Opening cash, cash equivalents and overdraft		**330.9**	499.8	499.8
Closing cash, cash equivalents and overdraft	9	**434.0**	415.0	330.9

[1] Restated to reclassify Wheldon Contracts & Services 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 2018 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 2018 were approved by the Board of Directors on 19 September 2018 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 2018.

These interim financial statements were approved by the directors on 19 March 2019.

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 2018.

The Group has applied IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the period ending 31 December 2018. Both of these standards have been applied retrospectively at 1 July 2018 by adjusting the opening balance sheet at that date. Further details on the transitional impact on adoption of these standards is described in note 17.

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 consistent with those that applied to the financial statements as at, and for the year ended, 30 June 2018, with additional consideration given to the requirements of the new revenue accounting standard IFRS 15 when making certain judgements (see note 17 for further details).

Going concern
The Group has significant financial resources, committed banking facilities, long-term contracts and long-term order books. The directors are satisfied that the Group has sufficient financial resources to continue operating for the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group's 2019 interim financial statements.

Segmental reporting
From 1 July 2018 the Group transitioned to a new reporting format focused on three market positions. This change supports the way the Group works with clients and underpins complementary capabilities. The new reporting segments comprise Infrastructure Services, Buildings and Developments & Housing, 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.

The change in reporting structure has also resulted in a change to the Group's previously reported cash generating units ('CGU'). In accordance with IAS 36 'Impairment of Assets' the Group has reallocated the carrying value of the Group's goodwill as at 1 July 2018 to each of the Group's new CGUs as follows:

	£m
Infrastructure Services	527.0
Buildings	20.4
Developments & Housings	12.8
	560.2

Segment information is based on the information provided to the executive chairman, together with the Board, 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 operational review on pages 6-7.

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 non-underlying items, amortisation of intangible contract rights, interest and income tax expense. The segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

1 Basis of preparation continued

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.

Costs and benefits associated with the Future Proofing Kier programme are included within underlying profit.

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

Discontinued operations
Following its sale in the period to 30 June 2018, the results of Wheldon Contracts & Services Ltd ('Wheldon') have been reclassified to discontinued operations in the comparative period to 31 December 2017.

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.

Standards issued but not yet effective
The Group continues to work on assessing the impact of IFRS 16 'Leases'. As previously disclosed, the main impact of IFRS 16 will be to move the Group's larger, longer-term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs.

The Group will be adopting IFRS 16 for the first time in the year ended 30 June 2020. We will provide an update to the market on the impact of adopting IFRS 16 in due course.

2 Segmental reporting

Six months to 31 December 2018	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	867.7	914.7	419.1	-	2,201.5
Less share of joint ventures	-	-	(124.1)	-	(124.1)
Group revenue	**867.7**	**914.7**	**295.0**	**-**	**2,077.4**
Timing of revenue[1]					
Products and services transferred at a point in time	2.7	-	179.2	-	181.9
Products and services transferred over time	865.0	914.7	239.9	-	2,019.6
Group and share of joint ventures	**867.7**	**914.7**	**419.1**	**-**	**2,201.5**
Geographic split of revenue[1]					
United Kingdom	829.1	884.2	419.1	-	2,132.4
Americas	-	-	-	-	-
Middle East	-	30.5	-	-	30.5
Far East & Australia	38.6	-	-	-	38.6
Group and share of joint ventures	**867.7**	**914.7**	**419.1**	**-**	**2,201.5**
Profit					
Group operating profit/(loss)	37.2	30.8	3.8	(34.2)	37.6
Share of post-tax results of joint ventures	-	-	14.2	-	14.2
Underlying operating profit/(loss)	**37.2**	**30.8**	**18.0**	**(34.2)**	**51.8**
Underlying net finance (costs)/income[2]	(1.5)	2.9	(9.4)	(4.8)	(12.8)
Underlying profit/(loss) before tax	**35.7**	**33.7**	**8.6**	**(39.0)**	**39.0**
Non-underlying items:					
Amortisation of intangible assets relating to contract rights	(12.3)	-	(0.5)	-	(12.8)
Non-underlying finance costs	(0.9)	-	(0.9)	-	(1.8)
Other non-underlying items	(1.1)	(25.0)	(25.4)	(8.4)	(59.9)
Profit/(loss) before tax from continuing operations	**21.4**	**8.7**	**(18.2)**	**(47.4)**	**(35.5)**
Balance sheet					
Operating assets[3]	1,236.3	530.8	682.9	12.1	2,462.1
Operating liabilities[3]	(559.9)	(701.6)	(244.5)	(71.1)	(1,577.1)
Net operating assets/(liabilities)[3]	**676.4**	**(170.8)**	**438.4**	**(59.0)**	**885.0**
Cash, cash equivalents and borrowings	92.1	250.6	(442.7)	(105.1)	(205.1)
Net financial assets	-	-	-	21.7	21.7
Net assets/(liabilities) excluding net assets held for sale	**768.5**	**79.8**	**(4.3)**	**(142.4)**	**701.6**
Net assets held for sale	**-**	**-**	**12.0**	**-**	**12.0**
Net assets/(liabilities)	**768.5**	**79.8**	**7.7**	**(142.4)**	**713.6**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Six months to 31 December 2017[4, 5]	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	801.5	832.1	516.3	-	2,149.9
Less share of joint ventures	-	-	(154.5)	-	(154.5)
Group revenue	**801.5**	**832.1**	**361.8**	**-**	**1,995.4**
Timing of revenue[1]					
Products and services transferred at a point in time	2.6	-	211.9	-	214.5
Products and services transferred over time	798.9	832.1	304.4	-	1,935.4
Group and share of joint ventures	**801.5**	**832.1**	**516.3**	**-**	**2,149.9**
Geographic split of revenue[1]					
United Kingdom	745.8	755.0	516.3	-	2,017.1
Americas	-	7.6	-	-	7.6
Middle East	-	64.9	-	-	64.9
Far East & Australia	55.7	4.6	-	-	60.3
Group and share of joint ventures	**801.5**	**832.1**	**516.3**	**-**	**2,149.9**
Profit					
Group operating profit/(loss)	39.3	17.7	2.3	(22.1)	37.2
Share of post-tax results of joint ventures	-	-	22.8	-	22.8
Profit on disposal of joint ventures and subsidiaries	-	-	0.6	-	0.6
Underlying operating profit/(loss)	**39.3**	**17.7**	**25.7**	**(22.1)**	**60.6**
Underlying net finance (costs)/income[2]	(1.7)	3.7	(6.2)	(7.0)	(11.2)
Underlying profit/(loss) before tax	**37.6**	**21.4**	**19.5**	**(29.1)**	**49.4**
Non-underlying items:					
Amortisation of intangible assets relating to contract rights	(12.4)	-	(0.1)	-	(12.5)
Non-underlying finance costs	(1.0)	-	(1.6)	-	(2.6)
Profit/(loss) before tax from continuing operations	**24.2**	**21.4**	**17.8**	**(29.1)**	**34.3**
Balance sheet					
Operating assets[3]	1,138.8	488.3	682.0	53.2	2,362.3
Operating liabilities[3]	(488.5)	(661.1)	(261.9)	(159.9)	(1,571.4)
Net operating assets/(liabilities)[3]	**650.3**	**(172.8)**	**420.1**	**(106.7)**	**790.9**
Cash, cash equivalents and borrowings	158.8	276.6	(355.5)	(336.5)	(256.6)
Net financial assets	-	-	-	12.7	12.7
Net assets/(liabilities) excluding net liabilities held for sale	**809.1**	**103.8**	**64.6**	**(430.5)**	**547.0**
Net liabilities held for sale	**-**	**-**	**(2.2)**	**-**	**(2.2)**
Net assets/(liabilities)	**809.1**	**103.8**	**62.4**	**(430.5)**	**544.8**

Notes to the interim financial statements
Continued

2 Segmental reporting continued

Year to 30 June 2018[5]	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,713.9	1,777.5	1,001.9	-	4,493.3
Less share of joint ventures	-	-	(273.2)	-	(273.2)
Group revenue	**1,713.9**	**1,777.5**	**728.7**	**-**	**4,220.1**
Timing of revenue[1]					
Products and services transferred at a point in time	5.2	-	421.2	-	426.4
Products and services transferred over time	1,708.7	1,777.5	580.7	-	4,066.9
Group and share of joint ventures	**1,713.9**	**1,777.5**	**1,001.9**	**-**	**4,493.3**
Geographic split of revenue[1]					
United Kingdom	1,600.0	1,650.2	1,001.9	-	4,252.1
Americas	-	7.7	-	-	7.7
Middle East	-	114.8	-	-	114.8
Far East & Australia	113.9	4.8	-	-	118.7
Group and share of joint ventures	**1,713.9**	**1,777.5**	**1,001.9**	**-**	**4,493.3**
Profit					
Group operating profit/(loss)	68.3	54.7	25.9	(35.1)	113.8
Share of post-tax result of joint ventures	-	-	42.7	-	42.7
Profit on disposal of joint ventures and subsidiaries	-	-	3.5	-	3.5
Underlying operating profit/(loss)	**68.3**	**54.7**	**72.1**	**(35.1)**	**160.0**
Underlying net finance (costs)/income[2]	(3.8)	7.0	(17.0)	(9.3)	(23.1)
Underlying profit/(loss) before tax	**64.5**	**61.7**	**55.1**	**(44.4)**	**136.9**
Non-underlying items:					
Amortisation of intangible assets relating to contract rights	(25.0)	-	(0.6)	-	(25.6)
Non-underlying finance costs	(1.4)	-	(3.7)	-	(5.1)
Profit/(loss) before tax from continuing operations	**38.1**	**61.7**	**50.8**	**(44.4)**	**106.2**
Balance sheet					
Operating assets[3]	1,142.8	504.3	715.8	99.1	2,462.0
Operating liabilities[3]	(522.9)	(752.9)	(310.7)	(81.5)	(1,668.0)
Net operating assets/(liabilities)[3]	**619.9**	**(248.6)**	**405.1**	**17.6**	**794.0**
Cash, cash equivalents and borrowings	141.1	340.0	(343.7)	(343.4)	(206.0)
Net financial assets	-	-	-	15.2	15.2
Net assets/(liabilities) excluding net liabilities held for sale	**761.0**	**91.4**	**61.4**	**(310.6)**	**603.2**
Net liabilities held for sale	**-**	**-**	**(2.1)**	**-**	**(2.1)**
Net assets/(liabilities)	**761.0**	**91.4**	**59.3**	**(310.6)**	**601.1**

[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) excludes cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, assets and liabilities classified as held for sale and interest-bearing inter-company loans.
[4] Restated to reclassify Wheldon Contracts & Services Ltd as discontinued.
[5] Prior periods restated to show the new reporting segments focused on the Group's three market positions of Infrastructure Services, Buildings and Developments & Housing.

Notes to the interim financial statements
Continued

3 Non-underlying items

	Unaudited 6 months to 31 December 2018 £m	Unaudited 6 months to 31 December 2017 £m	Year to 30 June 2018 £m
Portfolio simplification – sale of assets and other M&A activity			
Loss on disposal of KHSA Limited	**(1.4)**	-	-
Profit on disposal of the Group's pension administration business	**2.5**	-	-
Loss on disposal of Unity	**(1.9)**	-	-
Remeasurement of McNicholas deferred contingent consideration	**5.5**	-	-
McNicholas integration costs	**(5.4)**	-	-
Other non-underlying costs			
Provision relating to Broadmoor Hospital redevelopment project	**(25.0)**	-	-
Provision relating to Environmental Waste contract	**(26.0)**	-	-
Guaranteed Minimum Pension equalisation charge	**(6.1)**	-	-
Result of Mining operations	**(2.1)**	-	-
Total other non-underlying items	**(59.9)**	**-**	**-**
Amortisation of intangible contract rights	**(12.8)**	(12.5)	(25.6)
Financing costs	**(1.8)**	(2.6)	(5.1)
Total non-underlying items	**(74.5)**	**(15.1)**	**(30.7)**
Associated tax credit	**12.9**	3.1	5.6
Charged against (loss)/profit for the period	**(61.6)**	**(12.0)**	**(25.1)**

In classifying items as non-underlying, management are required to make judgements as to whether an item meets the criteria set out in note 1, including whether by their size, nature or incidence they need to be disclosed separately in order to obtain a clear, consistent view of the Group's underlying business performance.

In the current year and prior year the following items have been classified as non-underlying:

> Amortisation of intangible assets and discount unwind of acquisition related fair value adjustments and deferred consideration – these have been classified in non-underlying in accordance with our criteria set out in note 1.

> The results of the Mining operation which have a net loss impact of £2.1m (period to 31 December 2017: £nil; year to 30 June 2018: £nil) on underlying operating profit and the associated interest costs continue to be classified as non-underlying as the Group continues to wind down the business. The 2018 financial year represents a full year's trading, however trading is expected to be minimal in current and future years. The key judgement in classifying the results as non-underlying is the Directors' continued intention to wind the business down.

In the current year the following additional items have been classified as non-underlying:

Portfolio simplification – sale of assets and other M&A activity: the Group made three disposals in the year, which in the judgement of the Directors were sufficiently material in nature to distort the underlying results of the business if not separately identified. The Group has also remeasured deferred contingent consideration payable with respect to the McNicholas acquisition completed in prior periods (see note 12 for further details); and presented McNicholas integration costs as non-underlying on the basis that they are material and one-off in nature and relate to the integration of the Group's pre-existing utilities business with the acquired McNicholas business.

Other non-underlying costs – in reviewing the accounts the Directors judged a number of other items to be non-underlying on the following basis: a Guaranteed Minimum Pension equalisation charge on the basis that it was material and one-off in nature, (see note 4 for further details); a £25.0m provision relating to the Broadmoor Hospital development project in respect of future recoveries of costs from the client and other third parties, of which £15.0m is presented as a revenue adjustment; and an additional onerous contract provision relating to exiting the Group's largest loss-making environmental waste contract on the basis both of size and the fact that it relates to a legacy contract that the Group is working to close out.

Underlying operating profit for the period is after incurring £14.0m of Future Proofing Kier costs. The Group's Future Proofing Kier programme of simplification and cost savings has generated £4m savings in the first half of the year and is on track to achieve equality of cost and savings for the full year.

During the six months ended 31 December 2018 the Group has continued to actively manage liabilities acquired as part of the McNicholas balance sheet and has recognised a credit of £5.6m within underlying operating profit with respect to the reversal of such liabilities.

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 2018

	Kier Group Pension Scheme £m	Mouchel Pension Schemes £m	May Gurney Pension Scheme £m	McNicholas Pension Scheme £m	Total £m
Opening surplus/(deficit)	25.2	(8.8)	(1.1)	(7.4)	7.9
Charge to income statement[1, 2]	(3.8)	(1.5)	(0.6)	(0.2)	(6.1)
Employer contributions	6.0	4.5	0.8	0.6	11.9
Actuarial losses	(5.9)	(23.7)	(0.1)	(0.5)	(30.2)
Closing surplus/(deficit)	**21.5**	**(29.5)**	**(1.0)**	**(7.5)**	**(16.5)**
Comprising:					
Total market value of assets	1,112.2	442.4	74.5	22.9	1,652.0
Present value of liabilities	(1,090.7)	(471.9)	(75.5)	(30.4)	(1,668.5)
Net surplus/(deficit)	**21.5**	**(29.5)**	**(1.0)**	**(7.5)**	**(16.5)**
Related deferred tax (liability)/asset	(3.7)	5.0	0.2	1.3	2.8
Net pension asset/(liability)	**17.8**	**(24.5)**	**(0.8)**	**(6.2)**	**(13.7)**
Presentation of net surplus/(deficit) above in the Consolidated balance sheet:					
Retirement benefit assets	21.5	11.9	-	-	33.4
Retirement benefit obligations	-	(41.4)	(1.0)	(7.5)	(49.9)
Net surplus/(deficit)	**21.5**	**(29.5)**	**(1.0)**	**(7.5)**	**(16.5)**

Unaudited 6 months to 31 December 2017

	Kier Group Pension Scheme £m	Mouchel Pension Schemes £m	May Gurney Pension Scheme £m	McNicholas Pension Scheme £m	Total £m
Opening deficit	(31.1)	(47.6)	(5.9)	-	(84.6)
Acquired deficit	-	-	-	(10.9)	(10.9)
Charge to income statement[1, 2]	(0.7)	(1.1)	(0.2)	(0.1)	(2.1)
Employer contributions	7.1	5.4	1.2	0.8	14.5
Actuarial gains	56.1	3.7	-	-	59.8
Closing surplus/(deficit)	**31.4**	**(39.6)**	**(4.9)**	**(10.2)**	**(23.3)**
Comprising:					
Total market value of assets	1,181.9	467.1	78.1	22.2	1,749.3
Present value of liabilities	(1,150.5)	(506.7)	(83.0)	(32.4)	(1,772.6)
Net surplus/(deficit)	**31.4**	**(39.6)**	**(4.9)**	**(10.2)**	**(23.3)**
Related deferred tax (liability)/asset	(5.3)	6.8	0.8	1.7	4.0
Net pension asset/(liability)	**26.1**	**(32.8)**	**(4.1)**	**(8.5)**	**(19.3)**
Presentation of net surplus/(deficit) above in the Consolidated balance sheet:					
Retirement benefit assets	31.4	7.2	-	-	38.6
Retirement benefit obligations	-	(46.8)	(4.9)	(10.2)	(61.9)
Net surplus/(deficit)	**31.4**	**(39.6)**	**(4.9)**	**(10.2)**	**(23.3)**

4 Retirement benefit obligations continued

					Year to 30 June 2018
	Kier Group Pension Scheme £m	Mouchel Pension Schemes £m	May Gurney Pension Scheme £m	McNicholas Pension Scheme £m	Total £m
Opening deficit	(31.1)	(47.6)	(5.9)	-	(84.6)
Acquired deficit	-	-	-	(10.9)	(10.9)
Charge to income statement[1, 2]	(1.0)	(1.6)	(0.2)	(0.2)	(3.0)
Employer contributions	13.4	9.2	2.4	1.6	26.6
Actuarial gains	43.9	31.2	2.6	2.1	79.8
Closing surplus/(deficit)	**25.2**	**(8.8)**	**(1.1)**	**(7.4)**	**7.9**
Comprising:					
Total market value of assets	1,120.0	463.4	75.1	22.7	1,681.2
Present value of liabilities	(1,094.8)	(472.2)	(76.2)	(30.1)	(1,673.3)
Net surplus/(deficit)	**25.2**	**(8.8)**	**(1.1)**	**(7.4)**	**7.9**
Related deferred tax (liability)/asset	(4.3)	1.5	0.2	1.3	(1.3)
Net pension asset/(liability)	**20.9**	**(7.3)**	**(0.9)**	**(6.1)**	**6.6**
Presentation of net surplus/(deficit) above in the Consolidated balance sheet:					
Retirement benefit assets	25.2	14.3	-	-	39.5
Retirement benefit obligations	-	(23.1)	(1.1)	(7.4)	(31.6)
Net surplus/(deficit)	**25.2**	**(8.8)**	**(1.1)**	**(7.4)**	**7.9**

[1] On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that pension schemes must equalise Guaranteed Minimum Pensions (GMP) between male and female members. Amounts charged to the income statement for the period to 31 December 2018 include a non-underlying GMP charge of £6.1m (period to 31 December 2017: £nil; year to 30 June 2018: £nil).
[2] Amounts charged to income statement for Mouchel pension schemes for the period to 31 December 2018 include a curtailment gain of £nil (period to 31 December 2017: £0.3m; year to 30 June 2018: £0.3m).

5 Taxation

The taxation charge for the six months ended 31 December 2018 has been calculated at 20.5% (June 2018: 17.1%, December 2017: 17.2%) of adjusted profit before tax, being profits adjusted for the Group's share in equity accounted joint ventures and excluding non-underlying items. Non-underlying items are taxed at their underlying rate.

	Unaudited 6 months to 31 December 2018			Unaudited 6 months to 31 December 2017[2]			Year to 30 June 2018		
	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	**39.0**	**(74.5)**	**(35.5)**	49.4	(15.1)	34.3	136.9	(30.7)	106.2
Adjust: tax on joint ventures included above	**0.5**	**-**	**0.5**	-	-	-	0.1	-	0.1
Adjusted profit/(loss) before tax	**39.5**	**(74.5)**	**(35.0)**	49.4	(15.1)	34.3	137.0	(30.7)	106.3
Current tax	**-**	**-**	**-**	(6.9)	0.6	(6.3)	(3.9)	1.2	(2.7)
Deferred tax	**(4.9)**	**12.9**	**8.0**	(0.7)	2.5	1.8	(16.8)	4.4	(12.4)
Overseas tax	**(2.7)**	**-**	**(2.7)**	(0.9)	-	(0.9)	(2.6)	-	(2.6)
Total income tax (expense)/credit in the income statement	**(7.6)**	**12.9**	**5.3**	(8.5)	3.1	(5.4)	(23.3)	5.6	(17.7)
Tax on joint ventures	**(0.5)**	**-**	**(0.5)**	-	-	-	(0.1)	-	(0.1)
Effective tax (charge)/credit	**(8.1)**	**12.9**	**4.8**	(8.5)	3.1	(5.4)	(23.4)	5.6	(17.8)
Effective tax rate	**20.5%**	**17.3%**	**13.7%**	17.2%	20.5%	15.7%	17.1%	18.2%	16.7%

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Restated to reclassify Wheldon Contracts & Services Ltd as discontinued.

Notes to the interim financial statements
Continued

6 Dividends

Amounts recognised as distributions to equity holders in the period:	**Unaudited 6 months to 31 December 2018 £m**	Unaudited 6 months to 31 December 2017 £m	Year to 30 June 2018 £m
Final dividend for the year ended 30 June 2018 of 46.0 pence (2017: 45.0 pence)	**44.7**	43.7	43.7
Interim dividend for the year ended 30 June 2019 of 4.9 pence (2018: 23.0 pence)	**-**	-	22.4
	44.7	43.7	66.1

The interim dividend for the year ending 30 June 2019 of 4.9 pence per share (2018: 23.0 pence) has not yet been paid and so has not been included as a liability in these financial statements. The dividend totalling approximately £7.9m will be paid on 17 May 2019 to shareholders on the register at the close of business on 29 March 2019. A DRIP "dividend reinvestment plan" alternative will be offered.

7 Earnings per share

	Unaudited 6 months to 31 December 2018		Unaudited 6 months to 31 December 2017 (restated)		Year to 30 June 2018 (restated)	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Continuing operations						
Earnings (after tax and non-controlling interests), being net profits/(losses) attributable to equity holders of the parent	**(29.8)**	**(29.8)**	28.4	28.4	88.3	88.3
Impact of non-underlying items net of tax:						
Amortisation of intangible assets - net of tax credit of £2.1m (2017: £2.5m)	**10.7**	**10.7**	10.0	10.0	20.9	20.9
Acquisition discount unwind[1] - net of tax credit of £0.3m (2017: £0.6m)	**1.5**	**1.5**	2.0	2.0	2.8	2.8
Other non-underlying items - net of tax credit of £10.5m (2017: £nil)	**49.4**	**49.4**	-	-	1.4	1.4
Earnings from continuing operations	**31.8**	**31.8**	40.4	40.4	113.4	113.4
Discontinued operations						
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	**-**	**-**	(0.6)	(0.6)	(1.0)	(1.0)
Loss from discontinued operations	**-**	**-**	(0.6)	(0.6)	(1.0)	(1.0)
	million	**million**	million	million	million	million
Weighted average number of shares used for earnings per share	**103.1**	**103.1**	98.8	99.5	98.9	100.0

Earnings per share	**pence**	**pence**	pence	pence	pence	pence
Continuing operations						
Earnings (after tax and non-controlling interests), being net profits/(losses) attributable to equity holders of the parent	**(28.9)**	**(28.9)**	28.7	28.5	89.3	88.3
Impact of non-underlying items net of tax:						
Amortisation of intangible assets - net of tax credit of £2.1m	**10.4**	**10.4**	10.2	10.1	21.1	20.9
Acquisition discount unwind[1] - net of tax credit of £0.3m	**1.5**	**1.5**	2.0	2.0	2.8	2.8
Other non-underlying items - net of tax credit of £10.5m	**47.8**	**47.8**	-	-	1.5	1.4
Earnings from continuing operations	**30.8**	**30.8**	40.9	40.6	114.7	113.4
Discontinued operations						
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	**-**	**-**	(0.6)	(0.6)	(1.0)	(1.0)
Loss from discontinued operations	**-**	**-**	(0.6)	(0.6)	(1.0)	(1.0)
Total earnings per share						
Statutory	**(28.9)**	**(28.9)**	28.1	27.9	88.3	87.3
Underlying	**30.8**	**30.8**	40.3	40.0	113.7	112.4

[1] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK mining loan.

The weighted average number of ordinary shares for the six months to 31 December 2017 and year to 30 June 2018, used in the calculation of earnings per share information, have been restated by multiplying those previously reported by an adjustment factor of 1.0176 to reflect the bonus element in the shares issued under the terms of the rights issue which completed on 20 December 2018.

7 Earnings per share continued

Earnings per share for the six months ended 31 December 2017 have also been restated to reclassify Wheldon Contracts & Services Ltd as a discontinued operation.

In calculating the diluted earnings per share for the period to 31 December 2018, no adjustment for share options has been made to the weighted average number of ordinary shares because, based on the results for the period, any potential ordinary shares would have been anti-dilutive.

In calculating the diluted earnings per share for the period to 31 December 2017 the weighted average number of ordinary shares used as the denominator in calculating basic earnings per share has been adjusted by 0.7 million shares (year to 30 June 2018: 1.1 million shares) in relation to share options. Options granted to employees under the Sharesave, Conditional Share Award Plan (CSAP) and Long-Term Incentive Plan (LTIP) schemes are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance obligations would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

8 Assets held for sale

The Group's investments in its joint venture interest in Kier Hammersmith Limited ('KHL') and Strawberry Percy LLP ('SPL') have been classified as held for sale. The Group's interests in these joint ventures are either being actively marketed or discussions are well advanced as at 31 December 2018, whereby the transactions are either under offer or terms agreed, and the transactions are expected to complete before the end of the financial year.

Assets of disposal group classified as held for sale	**Unaudited 31 December 2018 £m**	Unaudited 31 December 2017 £m	30 June 2018 £m
Intangible assets – computer software	**-**	0.1	0.1
Investments in joint ventures	**12.0**	-	-
Trade and other receivables	**-**	0.7	1.2
Total	**12.0**	0.8	1.3

Liabilities of disposal group classified as held for sale	**Unaudited 31 December 2018 £m**	Unaudited 31 December 2017 £m	30 June 2018 £m
Overdrafts	**-**	(2.5)	(2.1)
Trade and other payables	**-**	(0.5)	(1.3)
Total	**-**	(3.0)	(3.4)

9 Cash, cash equivalents, overdraft and borrowings

	Unaudited 31 December 2018 £m	Unaudited 31 December 2017 £m	30 June 2018 £m
Net debt consists of:			
Cash and cash equivalents – bank balances and cash in hand	**434.0**	415.0	330.9
Borrowings due within one year	**(49.7)**	-	(12.0)
Borrowings due after one year	**(589.4)**	(671.6)	(524.9)
Impact of cross-currency hedging	**24.6**	18.1	20.3
Net debt	**(180.5)**	(238.5)	(185.7)

10 Trade and other payables

Included within the trade and other payables balance is £200.5m (31 December 2017: £174.6m; 30 June 2018: £184.8m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

11 Share-based payments

The Group has established a 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 2018 annual financial statements. 269,461 (2017: 232,159) shares have vested under the LTIP during the six months to 31 December 2018.

The Group has also established a 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 2018 grants were made under the LTIP and CSAP as follows:

	LTIP	CSAP
Grant date	22 October 2018	22 October 2018
Shares granted	242,756[1]	964,976[1]
Share price at grant	£8.71[1]	£8.71[1]
Exercise price	nil	nil
Option life	3 years	3 years
Expected volatility	28.37%	n/a
Risk-free interest rate	0.78%	n/a
Value per option:		
LTIP TSR element (based upon a stochastic model)	447.1p[1]	-
LTIP EPS and Net Debt:EBITDA element (based upon the Black-Scholes model)	809.7p[1]	-
CSAP (based upon the Black-Scholes model)	-	870.7p[1]

[1] The number of shares granted, share price at grant and values per option have been adjusted for the bonus factor arising on the rights issue in the period.

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.

12 Acquisitions and disposals

(a) Disposal of KHSA Limited

On 21 December 2018 the Group, through its subsidiary Kier Holdings Limited, disposed of its interest in KHSA Limited ('KHSA') for a total consideration of AUS$43.7m (£24.5m), of which AUS$41.7m (£23.4m) was received on completion, and the balance of AUS$2.0m (£1.1m) is deferred subject to satisfaction of future contractual commitments. KHSA, which was acquired as part of the Mouchel group of companies in 2015, was a joint operation providing road asset management and maintenance services in Australia.

	£m
Cash consideration	24.5
Cost of disposal	(1.7)
Book value of assets sold excluding goodwill and intangible contract rights	(6.9)
Profit on disposal excluding goodwill and intangible contract rights	**15.9**
Goodwill disposed	(10.8)
Intangible contract rights disposed (net of related deferred tax liability of £1.3m)	(6.5)
Loss on disposal	**(1.4)**

12 Acquisitions and disposals continued

(b) Disposal of the Group's pension administration business

On 31 October 2018 the Group disposed of its pensions administration business, which was deemed non-core to the Kier Group portfolio, for a total consideration of £3.7m. The business was classified as held for sale as at 30 June 2018.

	£m
Consideration	3.7
Cost of disposal	(0.9)
Book value of net assets sold	(0.3)
Gain on disposal	**2.5**

(c) Disposal of Unity

On 2 July 2018 the Group, through its subsidiary MPHBS Limited ('MPHBS'), disposed of its interest in The Unity Partnership Limited ('Unity') for a total consideration of £1.5m. Unity was a partnership between MPHBS and Oldham Metropolitan Borough Council ('OMBC') and delivered property, highways, transactional services, information and communication technology and business services.

	£m
Consideration	1.5
Cost of disposal	(0.4)
Book value of net assets sold	(3.0)
Loss on disposal	**(1.9)**

(d) Prior year acquisition of McNicholas

On 12 July 2017 the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited ('McNicholas'). Included in the acquisition consideration payable was £14.0m of deferred contingent consideration comprising:

- £9.5m in cash payable on achieving certain EBITDA (earnings before interest, tax, depreciation and amortisation) targets over a two-year period; and
- £4.5m payable on achieving debt-recovery targets, of which £2.4m was paid during the year ended 30 June 2018.

The outstanding discounted fair value of the deferred contingent consideration payable was £11.0m as at 30 June 2018 and was included as deferred consideration within trade and other payables. During the six months ended 31 December 2018 non-underlying interest expense of £0.2m has been recognised on unwinding the discounted deferred consideration payable, consistent with prior periods. In addition £6.7m has been credited to the income statement on remeasurement of the expected deferred contingent consideration to be paid, of which £5.5m relating to achieving earnout targets has been credited within non-underlying operating profit and £1.2m relating to debt-recovery has been credited within underlying operating profit, resulting in discounted deferred consideration payable as at 31 December 2018 of £4.5m.

13 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 of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2018.

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

14 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 2018.

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 2018.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	21.5	-	21.5
Derivatives used for hedging – Interest Rate Swaps	-	0.2	-	0.2
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	-	-	-

The following table presents the Group's financial assets and liabilities that are measured at fair value at 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 30 June 2018.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging - Cross Currency Swaps	-	15.0	-	15.0
Derivatives used for hedging – Interest Rate Swaps	-	0.2	-	0.2
Liabilities				
Derivatives used for hedging - Interest Rate Swaps	-	-	-	-

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

15 Guarantees, contingent liabilities and contingent assets

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's own contracts. The Company has also given guarantees in respect of certain contractual obligations of its subsidiaries and joint ventures, 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). Financial guarantees over the obligations of the Company's subsidiaries and joint ventures are measured at fair value. The fair value measurement is based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Performance guarantees are 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 are disclosed.

15 Guarantees, contingent liabilities and contingent assets continued

At 31 December 2018 the Group had contingent assets of £22.9m (30 June 2018: £24.3m) in relation to claims against third parties for the reimbursement of costs on construction contracts. Under IAS 37 these amounts may only be recognised when the economic benefit arising from the claims is virtually certain. It is probable that these amounts will be recognised in future periods when the uncertainty over their recoverability has been removed.

16 Events after the reporting period

After the end of the half year reporting period, the Group launched a member options exercise, offering a Pension Increase Exchange (PIE) to members of the Kier Group Pension Scheme and the Mouchel Business Services Limited Pension Scheme. The initiative is being carried out with support from the Trustees of the pension schemes, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The PIE offering is as follows:

1. A bulk PIE exercise. This involves offering members who are already drawing a pension a one-off increase in pension in lieu of future annual increases on part of their pension, supported with independent financial advice paid for by Kier. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take this option, with the gain recognised as a one-off income credit recognised during the year to 30 June 2019.

2. A PIE option at the point of retirement as 'business as usual' on the same terms as the bulk exercise. Kier will pay for members to take financial advice at point of retirement, including on the PIE at retirement option. A reduction in IAS 19 pension liabilities can be recognised based on an assumed rate of future take-up. The PIE at retirement option is expected to result in a further income credit recognised during the year to 30 June 2019.

The actual financial impact will depend upon take-up of the options (or an assumption of future take-up) and prevailing market conditions when the exercises are recognised. Kier is directly meeting the costs of implementing the exercises.

17 Changes in accounting policies

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 July 2018 using the cumulative effect method, and as such comparative information has not been restated.

IFRS 9 'Financial Instruments'
IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement. All financial instruments classified as trade and other receivables under IAS 39, as well as contract assets recognised in accordance with IFRS 15, have been classified and measured at amortised cost under IFRS 9.

IFRS 9 requires the Group to recognise expected credit losses ('ECL') whereby expected losses as well as incurred losses are provided for. The Group applies the simplified approach when determining ECL provisions for contract assets and trade receivables. In making the assessment of credit risk and estimating ECL provisions, the Group uses reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions.

The adoption of IFRS 9 has had no material impact on the Group's interim financial statements.

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and introduces a 5-step model to account for revenue, with new guidance provided in areas on which previous IFRSs were silent.

It is important to note that, whilst the change from the old revenue recognition standards to IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract.

The adoption of IFRS 15 has resulted in additional line items being disclosed on the Group's Consolidated balance sheet and Consolidated cash flow statement as follows:

> Consolidated balance sheet: Capitalised mobilisation costs and contract assets have been included within non-current assets; contract assets have been included within current assets; and contract liabilities have been included within current liabilities.

> Consolidated cash flow statement: Increase in contract assets and decrease in contract liabilities have been included within cash flow from operating activities; and purchase of capitalised mobilisation costs have been included within cash flows from investing activities.

17 Changes in accounting policies continued

Transition adjustments
The table below summarises the impact of the adoption of IFRS 15 at the date of first application:

Consolidated balance sheet

	Adjustment reference	30 June 2018 £m	Impact of adopting IFRS 15 £m	1 July 2018 £m
Non-current assets				
Intangible assets	E	**862.2**	(0.9)	**861.3**
Property, plant and equipment	E	**91.6**	(2.8)	**88.8**
Investment in and loans to joint ventures	A	**226.1**	(0.1)	**226.0**
Capitalised mobilisation costs	E	**-**	8.2	**8.2**
Contract assets	F	**-**	21.1	**21.1**
Trade and other receivables	F	**49.2**	(21.1)	**28.1**
Other non-current assets		**39.5**	-	**39.5**
Non-current assets		**1,268.6**	4.4	**1,273.0**
Current assets				
Inventories	A,E,F	**575.0**	(322.9)	**252.1**
Contract assets	A,F	**-**	421.5	**421.5**
Trade and other receivables	F	**603.0**	(150.0)	**453.0**
Other current assets		**361.5**	-	**361.5**
Current assets		**1,539.5**	(51.4)	**1,488.1**
Assets held for sale as part of a disposal group		**1.3**	-	**1.3**
Total assets		**2,809.4**	(47.0)	**2,762.4**
Current liabilities				
Trade and other payables	A,F	**(1,526.8)**	188.5	**(1,338.3)**
Contract liabilities	F	**-**	(193.4)	**(193.4)**
Other current liabilities		**(31.4)**	-	**(31.4)**
Current liabilities		**(1,558.2)**	(4.9)	**(1,563.1)**
Liabilities held for sale as part of a disposal group		**(3.4)**	-	**(3.4)**
Non-current liabilities				
Deferred tax liability	A-D	**(10.8)**	8.8	**(2.0)**
Other non-current liabilities		**(635.9)**	-	**(635.9)**
Non-current liabilities		**(646.7)**	8.8	**(637.9)**
Total liabilities		**(2,208.3)**	3.9	**(2,204.4)**
Net assets		**601.1**	(43.1)	**558.0**
Equity				
Retained earnings	A-D	**27.6**	(43.1)	**(15.5)**
Other equity		**571.8**	-	**571.8**
Equity attributable to owners of the parent		**599.4**	(43.1)	**556.3**
Non-controlling interests		**1.7**	-	**1.7**
Total equity		**601.1**	(43.1)	**558.0**

17 Changes in accounting policies continued

The table below provides a breakdown of the movement in the opening retained earnings by each of the principle adjustments. Explanatory notes for each of the adjustments are provided below the table.

Impact on retained earnings

Adjustment		Impact of adopting IFRS 15 £m
A	Change in method of calculating the percentage of completion on construction contracts	(14.2)
B	Third party claims	(24.6)
C	Derecognition of certain variable revenue items	(9.7)
D	Disaggregation of performance obligations	(3.4)
		(51.9)
Deferred tax credit on the above (at 17.0%)		8.8
Total adjustment to retained earnings		**(43.1)**

A - Change in the method of calculating the percentage of completion on construction contracts
IFRS 15 requires a consistent revenue recognition method for contracts and performance obligations with similar characteristics. Previously, the Group used an output measure of progress (based on external valuations) in its construction businesses and input methods in its services businesses. For its construction businesses, the Group has chosen to move to using the percentage of completion method, using cost incurred to date as a proportion of the estimated full costs of completing the contract, applied to the total expected contract revenue. The Group believes that moving to this input measure of progress better reflects the pattern of transfer of control to the customer and achieves consistency with other businesses within the Group. The change in method of measuring the percentage of completion has resulted in a transitional impact on retained earnings of £14.2m. Contracts were found, on average, to have a lower percentage of completion when compared to the previous measure.

B - Third-party claims
IAS 11 'Construction Contracts' permitted the recognition of expected cost reimbursements resulting from claims against a third party (as well as the customer) if it was probable that the claim would be accepted. Certain third-party claims (such as insurance recoveries and claims for cost reimbursements) are not covered by similar provisions in IFRS 15, which only deals with claims against the customer. Following the withdrawal of IAS 11, in order to recognise an asset for these third-party claims the Group will need to comply with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The requirements of IAS 37 are more stringent than IAS 11, requiring recovery to be virtually certain before an asset can be recognised. Whilst the Group still expects to recover the amounts claimed from third parties that the Group had recognised at the 30 June 2018 balance sheet date, certain claims do not meet the virtually certain criteria of IAS 37. These claims have therefore been de-recognised at the transition date and will be accounted for in future periods, when the uncertainty over their recovery has been removed.

C - Derecognition of certain variable revenue items
IFRS 15 introduces a requirement for recognition of variable consideration (for example pain/gain shares and milestone payments) that is "highly probable not to reverse". The Group has therefore reviewed its construction contracts and concluded that recognition of some of these items will occur later in the projects.

D - Disaggregation of performance obligations
IFRS 15 introduces a clear link between the value provided to the customer and the timing of revenue recognition. One of the principles of the new standard is that individual performance obligations within contracts should be identified and accounted for separately. In the majority of cases, the Group's previous accounting treatment was consistent with the principles of IFRS 15. However, on some contracts in the IT business support area, it has been necessary to disaggregate contracts and performance obligations and account for them separately. This gives rise to changes in the timing of revenue recognition. The Group will potentially recognise lower profits in the early years of these contracts, where there are higher operating costs compared to the level of service delivered to the customer, with a compensating increase in profits in later years. The impact on the Group on transition to IFRS 15 reflects the fact that these contracts are in the latter stages of their contract life cycles at the transition date.

E - Capitalised mobilisation costs
The IFRS 15 guidance on which pre-contract costs can and can't be capitalised is largely in line with the Group's previous accounting policy. However, under IFRS 15 a specific category has been introduced in non-current assets for capitalised mobilisation costs. There has therefore been a presentational change as the capitalised amounts have been reallocated to the new category.

F - Other balance sheet adjustments
The introduction of IFRS 15 does not only affect the timing of revenues and profit recognition in the income statement. The new standard introduces 'contract assets' and contract liabilities' as new balance sheet categories. There are therefore a number of presentational changes as accrued revenue amounts for work undertaken, but not yet certified/invoiced, have been reclassified as contract assets and amounts received or certified in advance of completing performance obligations have been reclassified as contract liabilities.

Conversely, balances within the IAS 11 related balance sheet headings of 'amounts recoverable on contracts' within inventories and 'construction contract balances' within trade and other payables have been eliminated either through the adoption of the new method of calculating the percentage of completion on construction contracts (which no longer necessitates adjustments to cost of sales) or else by reclassification to more appropriate balance sheet categories, including contract assets and contract liabilities.

Notes to the interim financial statements
Continued

17 Changes in accounting policies continued

Impact on the interim results for the six months ended 31 December 2018
The tables below summarise the impact of the adoption of IFRS 15 on the Group's interim consolidated income statement for the six months ended 31 December 2018, and the consolidated balance sheet for the period then ended. With the exception of the impact of changes to the income statement, there was no material impact on the Group's interim consolidated other comprehensive income. There was no material impact on the Group's net cash flows from operating activities, investing activities and financing activities.

Consolidated income statement – unaudited six months to 31 December 2018

		Amounts without adoption of IFRS 15			Impact of adopting IFRS 15			As reported		
Continuing operations	Adjustment reference	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m	Underlying items[1] £m	Non-underlying items £m	Total £m	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m
Revenue[2]										
Group and share of joint ventures	A,C,D	2,121.4	(12.7)	2,108.7	80.1	-	80.1	2,201.5	(12.7)	2,188.8
Less share of joint ventures	A	(124.0)	-	(124.0)	(0.1)	-	(0.1)	(124.1)	-	(124.1)
Group revenue	A,C,D	1,997.4	(12.7)	1,984.7	80.0	-	80.0	2,077.4	(12.7)	2,064.7
Cost of sales	A,B	(1,790.1)	(39.3)	(1,829.4)	(67.6)	-	(67.6)	(1,857.7)	(39.3)	(1,897.0)
Gross profit/(loss)		207.3	(52.0)	155.3	12.4	-	12.4	219.7	(52.0)	167.7
Administrative expenses		(182.1)	(19.9)	(202.0)	-	-	-	(182.1)	(19.9)	(202.0)
Share of post-tax results of joint ventures	A	14.1	-	14.1	0.1	-	0.1	14.2	-	14.2
Profit/(loss) on disposal of joint ventures and subsidiaries		-	(0.8)	(0.8)	-	-	-	-	(0.8)	(0.8)
Profit/(loss) from operations		39.3	(72.7)	(33.4)	12.5	-	12.5	51.8	(72.7)	(20.9)
Finance income		1.0	-	1.0	-	-	-	1.0	-	1.0
Finance cost		(13.8)	(1.8)	(15.6)	-	-	-	(13.8)	(1.8)	(15.6)
Profit/(loss) before tax		26.5	(74.5)	(48.0)	12.5	-	12.5	39.0	(74.5)	(35.5)
Taxation	A-D	(5.5)	12.9	7.4	(2.1)	-	(2.1)	(7.6)	12.9	5.3
Profit/(loss) for the period from continuing operations		21.0	(61.6)	(40.6)	10.4	-	10.4	31.4	(61.6)	(30.2)
Discontinued operations										
Profit for the period from discontinued operations		-	-	-	-	-	-	-	-	-
Profit/(loss) for the period		21.0	(61.6)	(40.6)	10.4	-	10.4	31.4	(61.6)	(30.2)
Attributable to:										
Owners of the parent		20.4	(60.6)	(40.2)	10.4	-	10.4	30.8	(60.6)	(29.8)
Non-controlling interests		0.6	(1.0)	(0.4)	-	-	-	0.6	(1.0)	(0.4)
		21.0	(61.6)	(40.6)	10.4	-	10.4	31.4	(61.6)	(30.2)
Earnings per share										
Basic earnings per share										
From continuing operations		20.8p	(59.7)p	(38.9)p	10.0p	-	10.0p	30.8p	(59.7)p	(28.9)p
From discontinued operations		-	-	-	-	-	-	-	-	-
Total		20.8p	(59.7)p	(38.9)p	10.0p	-	10.0p	30.8p	(59.7)p	(28.9)p
Diluted earnings per share										
From continuing operations		20.8p	(59.7)p	(38.9)p	10.0p	-	10.0p	30.8p	(59.7)p	(28.9)p
From discontinued operations		-	-	-	-	-	-	-	-	-
Total		20.8p	(59.7)p	(38.9)p	10.0p	-	10.0p	30.8p	(59.7)p	(28.9)p

[1] Stated before non-underlying items, see note 3 to the financial statements.
[2] Non-underlying revenue relating to the UK Mining operations of £2.3m is presented net of a £15.0m revenue adjustment with respect to the Group's Broadmoor Hospital development project (see note 3 for further details).

17 Changes in accounting policies continued

Impact on profit/(loss) for the period

Adjustment		Impact of IFRS 15 £m
A	Change in method of calculating the percentage of completion on construction contracts	8.6
B	Third party claims	1.4
C	Derecognition of certain variable revenue items	(0.6)
D	Disaggregation of performance obligations	3.1
		12.5
Tax charge on the above		(2.1)
Total impact on profit/(loss) for the period		**10.4**

A – Change in the method of calculating the percentage of completion on construction contracts
Additional profit has been recognised in relation to the relative percentage of completion of construction jobs, under the old and new calculation methods, at 31 December 2018 compared with 30 June 2018. The additional profit recognised in the period reflects the fact that the cumulative impact of IFRS 15 compared to the old percentage of completion measurement basis is, on average, less marked at 31 December 2018, than at 30 June 2018, i.e. there has been an acceleration of work when measured on a cost basis compared to the previous, external valuation, basis.

B - Third-party claims
One of the third-party claims that was derecognised as an IFRS 15 transitional adjustment, was settled in the six months to 31 December 2018. This has resulted in a difference in the timing of the accounting for the outcome of the settlement.

C - Derecognition of certain variable revenue items
The small additional charge to the income statement is a result of the timing difference on when certain claims (accounted for as variable consideration) should be recognised under IFRS 15 compared to the previous standards.

D - Disaggregation of performance obligations
As described in the transitional adjustments section above, it has been necessary to disaggregate contracts and performance obligations in relation to some contracts in the IT business support area, and account for them separately. This gives rise to changes in the timing of revenue recognition. On these contracts a transitional adjustment has been made to reflect the fact that less revenue and profit would have been recognised in the earlier years of these contracts. Conversely, more profit is recognised in the later years under IFRS 15. The impact on the income statement for the six months to 31 December 2018 reflects the fact that these contracts are in the latter stages of their contract life cycles.

17 Changes in accounting policies continued

Consolidated balance sheet – unaudited as at 31 December 2018

	Adjustment reference	Amounts without adoption of IFRS 15 £m	Impact of adopting IFRS 15 £m	As reported £m
Non-current assets				
Intangible assets	E	**830.3**	(0.4)	**829.9**
Property, plant and equipment	E	**86.8**	(3.1)	**83.7**
Investment in and loans to joint ventures		**238.3**	-	**238.3**
Capitalised mobilisation costs	E	**-**	8.6	**8.6**
Deferred tax asset	A-D	**6.7**	6.7	**13.4**
Contract assets	F	**-**	21.2	**21.2**
Trade and other receivables	F	**36.7**	(21.1)	**15.6**
Other non-current assets		**33.4**	-	**33.4**
Non-current assets		**1,232.2**	11.9	**1,244.1**
Current assets				
Inventories	A,E,F	**584.2**	(297.7)	**286.5**
Contract assets	A,F	**-**	456.5	**456.5**
Trade and other receivables	F	**625.7**	(159.2)	**466.5**
Other current assets		**464.2**	-	**464.2**
Current assets		**1,674.1**	(0.4)	**1,673.7**
Assets held for sale as part of a disposal group		**12.0**	-	**12.0**
Total assets		**2,918.3**	11.5	**2,929.8**
Current liabilities				
Trade and other payables	A,F	**(1,350.9)**	80.6	**(1,270.3)**
Contract liabilities	F	**-**	(125.3)	**(125.3)**
Other current liabilities		**(69.8)**	-	**(69.8)**
Current liabilities		**(1,420.7)**	(44.7)	**(1,465.4)**
Liabilities held for sale as part of a disposal group		**-**	-	**-**
Non-current liabilities		**(750.8)**	-	**(750.8)**
Total liabilities		**(2,171.5)**	(44.7)	**(2,216.2)**
Net assets		**746.8**	(33.2)	**713.6**
Equity				
Retained earnings	A-D	**(77.8)**	(32.7)	**(110.5)**
Other equity	A,C	**824.9**	(0.5)	**824.4**
Equity attributable to owners of the parent		**747.1**	(33.2)	**713.9**
Non-controlling interests		**(0.3)**	-	**(0.3)**
Total equity		**746.8**	(33.2)	**713.6**

The areas of the balance sheet impacted by the adoption of IFRS 15 and the nature of the adjustments are consistent with the transitional adjustments noted above.

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.

The Directors of Kier Group plc are listed on pages 64 and 65 of the Kier Group plc Annual Report and Accounts 2018, with the exception of Nick Winser who, having completed nine years on the Board, decided not to offer himself for re-election at the AGM held on 16 November 2018, and Haydn Mursell who resigned from the Board on 22 January 2019. A list of current Directors is maintained on the Kier Group plc website at: www.kier.co.uk.

Signed on 19 March 2019 on behalf of the Board.

Philip Cox CBE
Executive Chairman

Bev Dew
Finance Director

Independent review report to Kier Group plc

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed Kier Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim management report and financial statements of Kier Group plc for the 6 month period ended 31 December 2018. 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 2018;
- the Consolidated income statement and Consolidated statement of comprehensive income for the period then ended;
- the Consolidated cash flow statement for the period then ended;
- the Consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim 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.

Independent review report to Kier Group plc

Report on the condensed consolidated interim financial statements

Continued

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.

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
19 March 2019

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.