Kier Group plc

Interim Management Report and Financial Statements
for the six months ended 31 December 2012

KIER
DEFINING TOMORROW'S ENVIRONMENTS

Kier Group plc is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development and structured property financing and private and affordable housing.

The Group employs over 10,000 people worldwide and has an annual revenue of £2.1bn.

Commenting on the results, Paul Sheffield, chief executive said:

"I am pleased to report a solid set of results for Kier for the six months which demonstrate the strength and resilience of the Group in what remains a difficult market.

"Our three divisions create a well-balanced business model, which coupled with our strong balance sheet, will continue to underpin our future performance. As we are exposed to today's difficult environment, particularly in UK building, we are taking steps to restructure the business to reflect the scale of future opportunities. This restructuring will continue through the second half of the financial year.

"We are encouraged by the opportunities arising in our infrastructure and overseas Construction operations. In addition our Services businesses continue to diversify providing a strong platform for growth. In Property, our development and affordable housing pipeline has grown and now amounts to more than £1.3bn, and has attractive future prospects.

"Government announcements over the last year regarding investment in infrastructure and repairs and maintenance are positive for our business and we are well placed to benefit from those initiatives over the medium term."

Group highlights

Financial highlights for the six months ended 31 December 2012

Revenue

£976m

(2011: £1,046m)

Profit before tax*

£27m

(2011: £34m)

Earning per share*

53.5p

(2011: 70.3p)

Interim dividend per share

21.5p

(2011: 21.5p)

Net cash balances
(at 31 December 2012)

£105m

(30 June 2012: £159m)

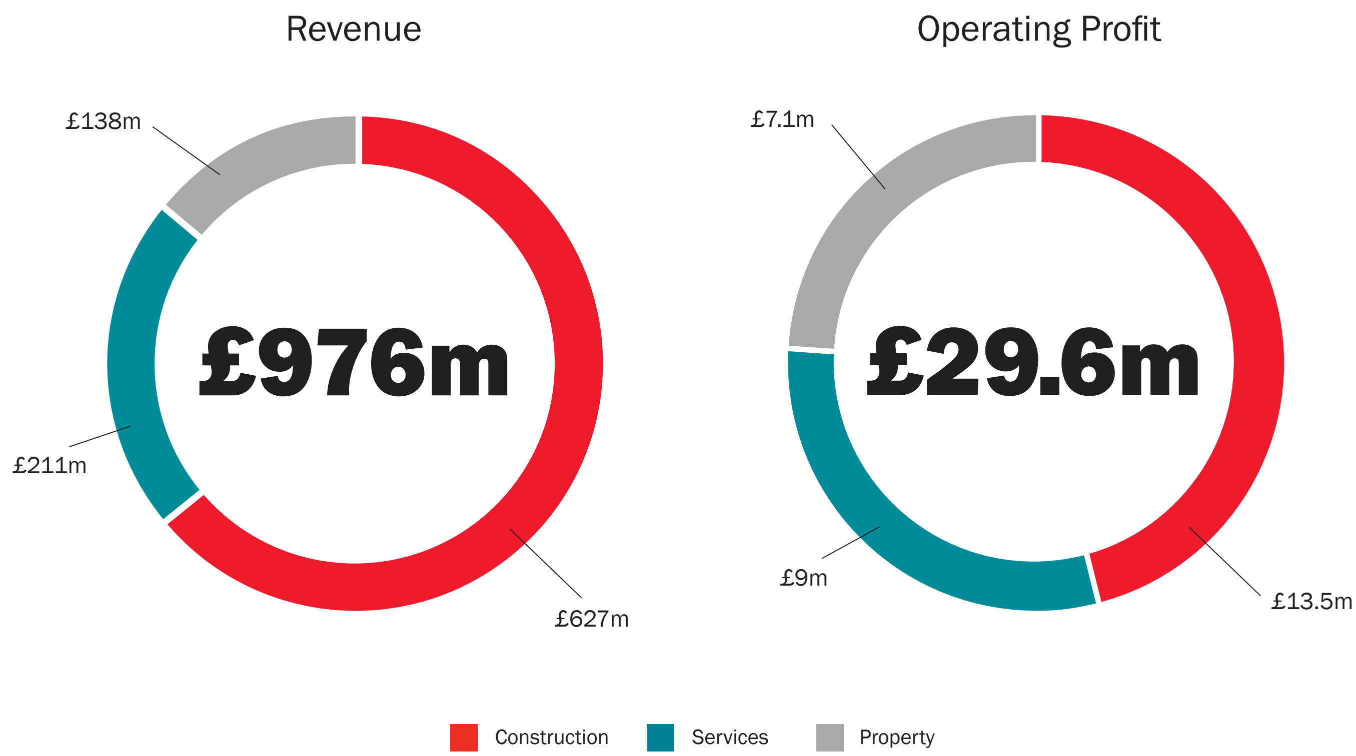
Order books for Construction and Services

£4.2bn

(2011: £4.2bn)

*Before amortisation of intangible assets

Six months to December 2012 - Divisonal performance



Defining tomorrow's environments

Kier Group

Kier Construction

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities, rail and mining projects.

Kier Services

The Services division comprises three main businesses: Maintenance, which provides both reactive and planned maintenance largely to local authorities and housing associations; FM, providing services to public and private sector clients; and Environmental, offering services for domestic and commercial waste collection and the management and operation of a major recycling facility, street scene and grounds maintenance.

Kier Property

Our Property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and homes, including both private and affordable housing.

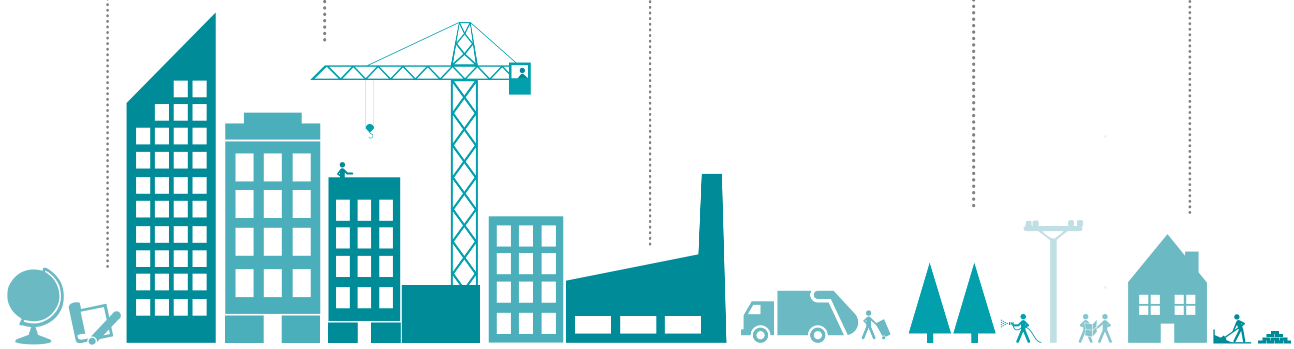
Strategy and planning
> Property policy
> Accommodation strategy
> Space planning
> Working patterns
> Estate modelling

Feasibility studies
> Planning appraisals
> Local property mapping
> Development use
> Community engagement
> Grants and funding

Development
> Investment appraisals
> Development appraisals
> Lifecycle costs and management
> PFI and PPP arrangements
> End user engagement
> Development partnerships
> Local asset partnership
> Lease/leaseback arrangements
> Urban regeneration and rural development
> Social housing and care homes

Design and technical services
> Design
> 3D modelling
> Technical services
> Building information modelling (BIM)

Site remediation
> Site regeneration
> Land reclamation
> Soil mechanics
> Contamination management
> Soil investigations
> Site preparation
> Mining



Refurbishment and upgrading
> Building 'greening'
> Energy management
> Property refits
> Small works
> Decant management
> Minor repairs

Civil engineering
> UK
> Overseas

Construction
> Major capital works
> Civil and infrastructure
> Design and build
> Supply chain management
> Traditional contracting
> Turnkey projects

FM and managed services
> Cleaning, waste management and recycling
> Pest control
> M&E maintenance
> Street services
> Reception and help desk
> Catering
> Grounds maintenance
> Post room
> Security

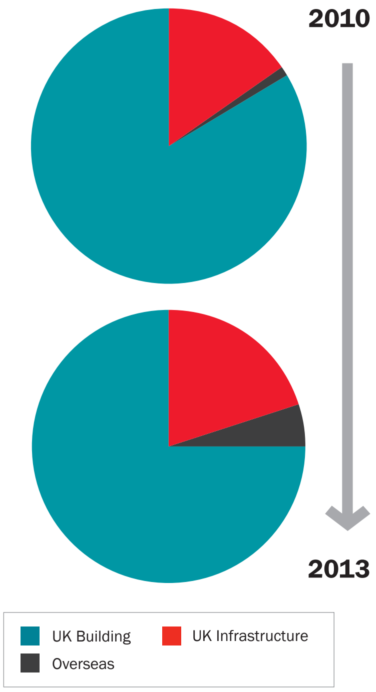
Repairs and maintenance
> Planned maintenance
> Cyclical maintenance
> Reactive maintenance
> Repairs and upgrades
> Building fabric maintenance
> 'Greening' of existing assets

Property/asset management
> Asset strategy and consultancy
> Building surveying
> Statutory compliance
> Acquisition and disposal
> Estate, asset data, rural estate and lease management
> Compulsory purchase orders
> Rating and variation
> Energy strategy

● Kier Construction ● Kier Services ● Kier Property

Group strategy

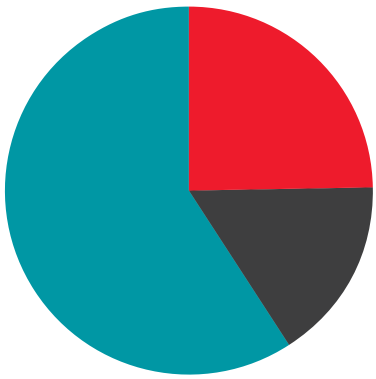
Construction (by revenue)



Transition created by

- Focus on Infrastructure
  - Power/Nuclear
  - Waste
  - Transport
  - Water
- Re-energise overseas markets
- Focus on frameworks
- Redesign business structure to match market opportunities

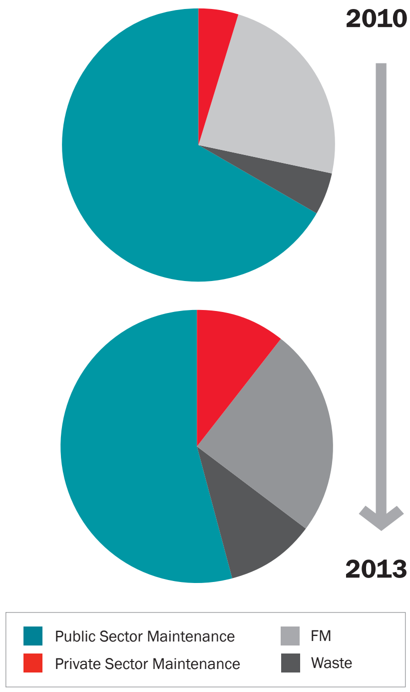
Medium Term



Growth Drivers

- UK Growth drivers
  - National Infrastructure Plan
  - Government guarantees
  - Energy markets
  - Transport strategy
  - £100m p.a. Kier Developments
- Overseas
  - Middle East economic resurgence – Abu Dhabi; Saudi Arabia
  - Hong Kong and Asia

Services (by revenue)



Transition created by

- Expand FM capability
  - Organic growth
  - Blue chip customers
  - Geography
- Enhance waste capability
  - Larger contracts
  - Pure and Biogen
- Maintenance
  - Target private sector
  - Re-align public sector offering/capability

Medium Term

Organic growth

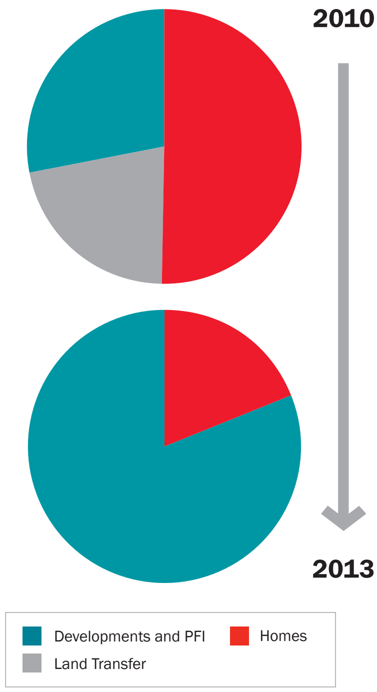
FM
Larger contracts
Wider geography
Private sector

Public sector outsourcing will grow

Growth Drivers

- Overall market will grow
- Kier capability offering and market share will broaden to include:
  - Housing management
  - Energy management
  - Access to private sector markets (housing maintenance)

Property (by profit)



Transition created by

- Investment in assets as part of Lloyds transaction in 2011
- Affordable Homes secured pipeline growth from £80m to £350m+
- Land bank reduced from 6,500 to 4,200
- PFI disposals replaced with new wins
- Development pipeline >£1bn
- Controlled development risk
- >15% ROCE annually for property development

Medium Term

Pipeline
Development > £1bn
Affordable Homes> £350m
Watford LABV £240m

Kent Housing Initiative

Solum Regeneration
(our JV with Network Rail)

Biogen

Growth Drivers

- New LABVs (Local Asset Backed Vehicles) and LEPs (Local Enterprise Partnerships)
- £10bn PRS (Private Rental Sector)
- Demand for affordable housing
- PF2 (Private Finance 2)
- HCA (Homes & Communities Agency) - DPP (Development Partner Panel) renewal
- New funding sources

Chief Executive's review

The Group has delivered a solid set of interim results to 31 December 2012, in line with our expectations. There is a weighting, as forecast, towards the second half of the financial year, primarily as a result of the timing of development projects in our Property division.

In light of this, and as forecast, total revenue for the six months to 31 December 2012 decreased by 7% for the same period in 2011 to £976m (2011: £1,046m) and underlying profit before tax decreased by 21% to £27.0m (2011: £34.0m).

Our Construction revenues yielded an underlying operating profit of £13.5m (2011: £17.8m), providing a 2.1% operating margin (2011: 2.5%). We remain selective in our choice of projects, targeting those where low price is not the principal differentiator and our involvement with a large number of frameworks across the UK is still providing us with good quality work.

In Services, after adding back amortisation, we achieved an underlying operating profit of £9.0m (2011: £9.8m) which equates to an operating margin of 4.3% (2011: 4.5%). It included mobilisation and bid costs expensed during the period that mainly related to new major schemes, such as the Circle and East Sussex contracts, both of which start soon.

In Property, the £7.1m (2011: £10.0m) operating profit is a result of a good performance across our Private and Affordable Homes businesses, the disposal of two of our mature PFI investments, Bournemouth Library and Greenwich Neighbourhood Resource Centres (total £5.3m), and progress in our Developments business which is forecasting a number of transactions in the second half of the financial year.

The past couple of years have been challenging and we have seen pressure on margins, cash and ongoing cost reduction in the public sector. We will continue to position ourselves in the growth markets that are available to us; however we will need to remain as efficient as possible. In the period we have reported an exceptional charge of £4.4m as we dispose of non-core activities and restructure our network of offices to better suit the trading conditions around the UK. This restructuring is continuing in the second half and the charge is expected to be approximately £12m for the full financial year.

The management of cash continues to be of critical focus across the Group. Month end cash balances in the period averaged £68m, and we ended the period with a balance of £105m (June 2012: £159m). This is after reinvestment of approximately £80m of cash, including in excess of £40m in our property development business, principally the second payment to Lloyds of £30m, and further investment in our mining, housing and Biogen businesses, all of which drive future growth. We recognise though that cash generation will continue to be constrained as Government requires the use of project bank accounts and payment terms within framework arrangements are increasingly tightened.

During the period, we have continued to strengthen the Group's strong capital structure. In December 2012 we issued 7-year and 10-year notes in aggregate principal amount of £63m with a blended coupon of 4.6% per annum and in January 2013 we entered into a £30m 4-year bilateral loan agreement with Lloyds, which was provided under the Government's Funding for Lending Scheme. These financings underpin Kier's solid financial position; are competitively priced, diversify the Group's sources of funding and reflect the market's confidence in our future prospects.

The Group's net assets at 31 December 2012 have remained stable at £142m (June 2012: £154m). The Kier Group Pension Scheme, for accounting purposes, was valued showing a net deficit of £48m (30 June 2012: net deficit of £45m) as a result of changes to the key assumptions (discount rate and inflation). We continue to progress the current funding plan agreed, under which, in addition to the current annual £8m deficit contributions, we will seek to transfer the Group's PFI assets as they become available and are suitable for the Scheme.

Taking into account the performance of the Group and its cash position, the Board is pleased to announce an interim dividend of 21.5p (2011: 21.5p). The interim dividend is well covered by adjusted earnings per share and will be paid to shareholders on 17 May

2013; a scrip dividend alternative will also be available.

Construction

In Construction, revenue for the six months to 31 December 2012 decreased to £627m (2011: £720m) and continues to be underpinned by our involvement with a significant number of frameworks. The lower underlying operating profit of £13.5m (2011: £17.8m) equates to a 2.1% (2011: 2.5%) operating margin which is a good result in today's shrinking and increasingly competitive market. This supports our strategy of focussing on high quality opportunities through selective bidding and involvement on frameworks.

Cash, one of the key areas of focus in this division, reduced to £313m (30 June 2012: £361m) principally due to additional investment in our mining operations and the tighter working capital environment across the sector. We are also seeing specific supply chain payment arrangements being introduced through public sector contracts.

Contract awards in the period of more than £500m, together with 'probable' awards (comprising contracts on which we are the preferred bidder or are in one to one negotiations), sustained order books of £2.1bn (30 June 2012: £2.2bn). This secures all of our targeted revenue for the current financial year and 66% of the target for 2014, slightly ahead of the equivalent position at 31 December 2011.

In the period, approximately half of our awards comprised UK public sector projects, a similar level to the same period in 2011, with education continuing to be our largest source of work accounting for 29% of awards. In health, the ProCure21+ framework continues to generate excellent opportunities, with the sector overall having provided 16% of awards in the six-month period. This takes our awards under the P21+ framework since its commencement in October 2010 up to £300m.

In the private sector we continue to deliver a number of major schemes in London. These include the Arthouse and Camden Civic Centre projects on the King's Cross Central Development for Argent, and the Sainsbury Wellcome Centre at University College London, Howland Street, where we are completing schemes with a combined value of £180m. Our strategic relationship with Argent at the King's Cross development has seen our appointment as preferred bidder for the £40m residential scheme at 1 Canal Reach. Kier Living continues to provide the Construction division with a dedicated sector focus within the UK's residential accommodation markets. In the six months to December 2012 we were named preferred bidder on over £100m of new build residential construction work and secured positions on contractors' frameworks worth £600m.

Our Infrastructure business continues to be successful in the expanding transport, power and waste markets in the UK and overseas. Our rail team has completed the re-roofing of King's Cross Station for Network Rail as part of the prestigious redevelopment of the station and we are making good progress on the Crossrail projects. We continue to grow our operations in the waste market with work at the £50m Plymouth waste to energy plant and a new £44m contract at the Wakefield Waste PFI scheme. In the nuclear energy sector, we are supporting EDF with the design and construction works at Hinkley Point C nuclear power station in preparation for the anticipated start of the earthworks and preliminary works later this year.

Our overseas business has had a good six months with a number of contract wins in the Caribbean and Middle East. In Jamaica, the National Water Company awarded Kier a £12m contract to refurbish 26 reservoirs in the Kingston area and in Haiti, we secured the refurbishment of Digicel's office building and a new Marriott Hotel, collectively valued at more than £30m. In Abu Dhabi we secured infrastructure projects at existing government facilities for a combined value of £48m. In the last few days we have reached agreement to establish a joint venture with a highly respected business in Saudi Arabia, ATCO, to pursue construction projects in the Kingdom and to build on our existing activities there.

Overall, the Construction division is well established in its key markets; however margins and working capital continue to tighten in the current competitive trading environment. Accordingly we have undertaken a comprehensive review of the division, particularly the UK building activities, to restructure the business in light of the forecast market conditions and to ensure that we drive efficiency throughout our operations to hold margins close to current levels. This will involve the closure or disposal of non-core activities and restructuring our network of offices. The process will continue in the second half of the year however it will not compromise our commitment to a regional focus or the delivery of our services to customers, but will position us well to respond to any market recovery.

Services

In Services, revenue was steady at £211m (2011: £218m) across all the three principal businesses within the division. Underlying operating profit, before deducting amortisation of intangible assets of £1.7m

(2011: £1.7m), decreased 8% to £9.0m (2011: £9.8m), with operating margins of 4.3% (2011: 4.5%) reflecting the mobilisation and bid costs expensed during the period. These predominantly related to our major new schemes, such as Circle and East Sussex. The cash position at 31 December 2012 also remained stable at £24m (30 June 2012: £19m).

The order book at 31 December 2012 of £2.1bn (30 June 2012: £2.1bn) showed a slight improvement as a result of the recent successes in securing new work and continues to provide long-term visibility of revenues. It represents 96% of our targeted revenue for the current financial year and 85% of the target for the 2014 financial year. The order book figure does not include contract extensions which would add a further £800m if all were exercised by our customers.

In the Maintenance business, the social housing repair, maintenance and refurbishment market remains competitive as local authorities in particular seek out further efficiencies both within existing contracts, contract renewals and new market opportunities. The local authority housing sector still supports a strong pipeline of opportunities as existing contracts are being renewed. However, many local authorities are still to decide on procurement options in response to the ongoing effects of the Comprehensive Spending Review.

The Housing Association Registered Provider sector is providing strong forward visibility of significant responsive and planned opportunities as evidenced by our success in being named preferred bidder for the provision of planned and cyclical maintenance to the Circle Housing Group with an annual value of circa £45m per annum for an initial five-year period commencing in the summer of 2013, with a possible five-year extension through to 2023.

Within the Facilities Management (FM) business, our success in developing long-term partnerships with our clients was evidenced through our successful renewals with Legal and General and Siemens which together are worth £25m in aggregate over the next three to five years together with over £40m of new work with Hampshire and Surrey County Councils.

Our Environmental business has also continued to grow, most significantly on the south coast, where we have been awarded a 10-year contract to deliver waste and recycling collections, street cleansing and beach cleaning services for four East Sussex councils. The contract, which will cover approximately 200,000 properties is valued at circa £12m per annum and has an optional 10-year extension.

We are confident we will continue to maintain our market share and expand our service offering to clients. Our order book is healthy, with good revenue visibility and we remain focused on the growth of this division to increase our scale in key areas and further improve operating performance.

Property

The Property Division encompasses our Property Development, Structured Project Finance and Private and Affordable Homes businesses, and has a pipeline in excess of £1.3bn across our development and affordable housing activities. Our Developments business continues to focus on predominantly non-speculative opportunities where elements of the schemes are forward sold or pre-let, thereby reducing the associated risk and any demands on the Group's cash reserves. Revenue for the six-month period to 31 December 2012 was £138m (2011: £108m) generating operating profit of £7.1m (2011: £10.0m). The operating result is weighted towards the second half of the financial year reflecting the timing of some of our development projects.

Over the last six months our Developments business completed the sale of land on the Ordnance Survey site in Southampton, the sale of the last retail unit on its Chichester scheme and unit sales were achieved at our industrial schemes in Uxbridge and Sunbury. Within Solum Regeneration, our joint venture with Network Rail, construction at Epsom is nearing completion and the redevelopment at Walthamstow Station is well under way.

We have continued with our strategy to sell mature PFI investments, and during the half-year we disposed of our 50% equity stakes in Bournemouth Library and Greenwich Neighbourhood Resource Centres. The total consideration was in excess of £5m representing a valuation discount rate on future cash flows of approximately 7%.
We are also progressing with our new PFI schemes for Staffordshire Fire and Rescue Services and London Fire Brigade which together will provide 20 new fire stations and we have recently been confirmed as preferred bidder on the Woking Housing PFI to build 373 homes, with a build value of £80m.

During the six-month period we acquired a 50% investment in Biogen (UK) Limited which designs, builds and operates large-scale anaerobic digestion (AD) plants to process food waste and produce renewable energy. The total committed investment in this joint venture, of approximately £24m over 4-5 years, is required to service the construction of new AD plants. In addition to the two plants in operation at the time of acquisition, we are now preferred bidder on a further five schemes across the country.

In our Private Homes business, demand in the wider residential housing market remains stable helped by a slight easing of mortgage availability. In the half-year period we achieved 296 completions, and started four new sites. At 31 December 2012 the land bank comprised 4,189 plots having acquired four sites (343 units) and re-planned other existing sites to improve viability.

Kier Partnership Homes, our Affordable Homes business, completed 150 new homes of which 36 were for private sale. The forward pipeline now stands at more than £350m of secured and preferred bidder schemes. As we work closely with the Homes and Communities Agency (HCA), through their Developer Partner Panel, we are set to deliver some of their most high profile UK regeneration projects including the 700 new homes on the former Manor & Kingsway Hospital site in Derby, the 100 new homes on the Valley Road, Cinderford site in the Forest of Dean and the 400 new homes on the Ransome Road site in Northampton. On an innovative £35m scheme in Kent, we have been selected by the County Council to deliver 150 new homes on land owned by them.

Our focus remains on mixed tenure developments, using our strong sales skills in a regeneration environment to deliver high quality schemes. We are well positioned to take advantage of the ever increasing demand for affordable housing delivered on public land with funding supported by private sales.

Safety, health and environment

During 2012 we have continued to pursue a number of initiatives supporting our Positive Safety Leadership programme which has been highly commended for inspiring better behavioural safety within the industry. In 2013, the focus will be on continuing to communicate key safety issues across the Group and ensuring that leadership at all levels is clearly visible and active.

Kier continues to perform ahead of the HSE benchmark with an Accident Incident Rate (AIR) for the Group well below the HSE benchmark figure; for example our Mining business remains at a very commendable zero AIR. Kier remains well within the top quartile of safety, health and environment performers compared to our industry peers.

As an example of our success, within the Property division, the Homes business received four highly commended NHBC Health and Safety Awards, with one project at Beasley Place in Newcastle-under-Lyme receiving both the Regional and National NHBC Health and Safety Awards.

In November 2012 Kier was announced as the winner of five Green Apple Awards for Environmental Best Practice, picking up one gold and three silver awards, as well as the overall Building and Construction National Green Champion award.

Kier continues to support the Carbon Disclosure Leadership Index and is the best performing construction company from the FTSE 250.

Outlook

This is the fourth year of industry recession and forecasts anticipate further decline across some of our core markets, particularly UK building where we are restructuring our business. The services sector has been uncertain over the last two years with existing outsourcing contracts being constrained and uncertainty over departmental budgets delaying decision making. New outsourcing work has been slow to come to market but we are currently seeing an increase in opportunities.

The prospects for the medium and long term are encouraging. There is ‘cross party’ support for the sectors in which we operate, particularly construction and affordable housing, and a recognition that investment is needed in UK infrastructure, and in repairs and maintenance, to help lift the economy out of recession.

Our overseas business continues to grow, building upon an already well-established regional presence and order book in the Caribbean, Middle East and Hong Kong. In particular we see opportunities in adjacent Middle East and Asian markets. New work in Abu Dhabi and a new joint venture in Saudi Arabia are all indicative of these opportunities.

We will continue to focus on winning quality work, particularly where our technical skills give us an opportunity to re-engineer a project or process to create value whilst allowing us to maintain a strict approach to risk management. The majority of our 2013 Construction and Services revenues are secure and in Services, none of our significant contracts are due for re-bid until 2014. The FM and Environmental businesses provide the best opportunities for growth in the short term and it is in these businesses that we will continue to seek greater scale.

We have a strong capital structure and healthy order books, which provide a stable platform to underpin our future performance.

Paul Sheffield
Chief Executive

Consolidated income statement

For the six months ended 31 December 2012

	Notes	Unaudited 6 months to 31 December 2012 Before exceptional items £m	Exceptional items* £m	Total £m	Unaudited 6 months to 31 December 2011 Total £m	Year to 30 June 2012 Before exceptional items £m	Exceptional items* £m	Total £m
Revenue								
Group and share of joint ventures	2	**975.6**	**–**	**975.6**	1,045.9	2,069.2	–	2,069.2
Less share of joint ventures		**(55.6)**	**–**	**(55.6)**	(15.5)	(38.7)	–	(38.7)
Group revenue		**920.0**	**–**	**920.0**	1,030.4	2,030.5	–	2,030.5
Cost of sales		**(826.0)**	**–**	**(826.0)**	(929.6)	(1,815.1)	(3.2)	(1,818.3)
Gross profit		**94.0**	**–**	**94.0**	100.8	215.4	(3.2)	212.2
Administrative expenses		**(72.2)**	**(4.4)**	**(76.6)**	(74.1)	(152.4)	(0.4)	(152.8)
Share of post-tax results of joint ventures		**0.7**	**–**	**0.7**	0.3	1.3	–	1.3
Profit on disposal of joint ventures		**5.3**	**–**	**5.3**	6.7	6.7	–	6.7
Profit from operations	2	**27.8**	**(4.4)**	**23.4**	33.7	71.0	(3.6)	67.4
Finance income		**1.7**	**–**	**1.7**	1.4	2.6	–	2.6
Finance cost		**(4.2)**	**–**	**(4.2)**	(2.8)	(7.0)	–	(7.0)
Profit before tax		**25.3**	**(4.4)**	**20.9**	32.3	66.6	(3.6)	63.0
Taxation	5	**(4.9)**	**1.0**	**(3.9)**	(6.4)	(8.5)	0.8	(7.7)
Profit for the period		**20.4**	**(3.4)**	**17.0**	25.9	58.1	(2.8)	55.3
Attributable to:								
Equity holders of the parent		**19.6**	**(3.4)**	**16.2**	25.3	57.0	(2.8)	54.2
Minority interests		**0.8**	**–**	**0.8**	0.6	1.1	–	1.1
		20.4	**(3.4)**	**17.0**	25.9	58.1	(2.8)	55.3
Earnings per share								
– basic	7	**50.1p**		**41.4p**	67.1p	150.0p		142.6p
– diluted	7	**50.0p**		**41.3p**	66.2p	147.3p		140.1p
Adjusted earnings per share (excluding the amortisation of intangible assets relating to contract rights)								
– basic	7	**53.5p**			70.3p	156.8p		
– diluted	7	**53.3p**			69.4p	154.0p		

*Exceptional items, as detailed in note 3, relate to:
- closure and discontinuation of non-core activities, including the scaffolding business;
- restructuring the Group's network of offices;
- acquisition costs; and
- provision for losses on disposal of the majority of the Plant business.

There were no exceptional items during the six months ended 31 December 2011.
All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the six months ended 31 December 2012

	Unaudited 6 months to 31 December 2012 £m	Unaudited 6 months to 31 December 2011 £m	Year to 30 June 2012 £m
Profit for the period	**17.0**	25.9	55.3
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements in cash flow hedging instruments	**–**	(8.3)	(10.7)
Tax on share of joint venture fair value movements in cash flow hedging instruments	**–**	1.9	2.3
Total items that may be reclassified subsequently to the income statement	**–**	(6.4)	(8.4)
Items that will not be reclassified to the income statement			
Actuarial losses on defined benefit pension schemes	**(20.9)**	(21.7)	(49.0)
Tax on actuarial losses on defined benefit pension schemes	**2.1**	3.4	7.5
Total items that will not be reclassified to the income statement	**(18.8)**	(18.3)	(41.5)
Other comprehensive loss for the period	**(18.8)**	(24.7)	(49.9)
Total comprehensive (loss)/income for the period	**(1.8)**	1.2	5.4
Attributable to:			
Equity holders of the parent	**(2.6)**	0.6	4.3
Minority interests	**0.8**	0.6	1.1
	(1.8)	1.2	5.4

Consolidated statement of changes in equity

For the six months ended 31 December 2012

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	**Attributable to equity holders of the parent £m**	Minority interest £m	**Total equity £m**
At 30 June 2011	0.4	46.9	2.7	120.7	(7.6)	0.2	**163.3**	0.9	**164.2**
Profit for the period	–	–	–	25.3	–	–	**25.3**	0.6	**25.9**
Other comprehensive loss	–	–	–	(18.3)	(6.4)	–	**(24.7)**	–	**(24.7)**
Dividends paid	–	–	–	(16.6)	–	–	**(16.6)**	–	**(16.6)**
Issue of own shares	–	7.6	–	–	–	–	**7.6**	–	**7.6**
Share–based payments charge	–	–	–	1.3	–	–	**1.3**	–	**1.3**
At 31 December 2011	0.4	54.5	2.7	112.4	(14.0)	0.2	**156.2**	1.5	**157.7**
Profit for the period	–	–	–	28.9	–	–	**28.9**	0.5	**29.4**
Other comprehensive loss	–	–	–	(23.2)	(2.0)	–	**(25.2)**	–	**(25.2)**
Dividends paid	–	–	–	(8.2)	–	–	**(8.2)**	(0.1)	**(8.3)**
Issue of own shares	–	0.5	–	–	–	–	**0.5**	–	**0.5**
Purchase of own shares	–	–	–	(1.2)	–	–	**(1.2)**	–	**(1.2)**
Share–based payments charge	–	–	–	1.6	–	–	**1.6**	–	**1.6**
Tax on share–based payments	–	–	–	(0.3)	–	–	**(0.3)**	–	**(0.3)**
At 30 June 2012	0.4	55.0	2.7	110.0	(16.0)	0.2	**152.3**	1.9	**154.2**
Profit for the period	–	–	–	16.2	–	–	**16.2**	0.8	**17.0**
Other comprehensive loss	–	–	–	(18.8)	–	–	**(18.8)**	–	**(18.8)**
Dividends paid	–	–	–	(17.3)	–	–	**(17.3)**	(0.2)	**(17.5)**
Issue of own shares	–	7.7	–	–	–	–	**7.7**	–	**7.7**
Purchase of own shares	–	–	–	(1.9)	–	–	**(1.9)**	–	**(1.9)**
Share–based payments charge	–	–	–	1.9	–	–	**1.9**	–	**1.9**
At 31 December 2012	**0.4**	**62.7**	**2.7**	**90.1**	**(16.0)**	**0.2**	**140.1**	**2.5**	**142.6**

Consolidated balance sheet

At 31 December 2012

	Notes	**Unaudited 31 December 2012 £m**	Unaudited 31 December 2011 £m	30 June 2012 £m
Non-current assets				
Intangible assets		**26.6**	25.3	28.8
Property, plant and equipment		**104.2**	103.3	102.8
Investment in joint ventures		**21.3**	5.7	7.5
Retirement benefit asset	4	**–**	–	1.2
Deferred tax assets		**29.9**	31.9	28.2
Trade and other receivables		**30.3**	21.5	32.9
Non-current assets		**212.3**	187.7	201.4
Current assets				
Inventories		**414.0**	408.6	394.7
Trade and other receivables		**359.2**	346.1	377.5
Income tax receivable		**7.5**	4.3	10.7
Assets held for sale		**–**	–	13.0
Cash and cash equivalents		**105.2**	161.3	159.1
Current assets		**885.9**	920.3	955.0
Total assets		**1,098.2**	1,108.0	1,156.4
Current liabilities				
Borrowings		**(30.4)**	–	(30.3)
Finance lease obligations		**(1.3)**	–	(1.3)
Other financial liabilities		**–**	(0.1)	(0.3)
Trade and other payables		**(721.2)**	(787.4)	(816.6)
Provisions		**(2.5)**	(1.6)	(1.8)
Current liabilities		**(755.4)**	(789.1)	(850.3)
Non-current liabilities				
Borrowings		**(62.7)**	(30.3)	–
Finance lease obligations		**(6.9)**	–	(7.3)
Other financial liabilities		**–**	–	(0.3)
Trade and other payables		**(13.3)**	(45.9)	(37.2)
Retirement benefit obligations	4	**(63.7)**	(39.1)	(59.0)
Provisions		**(53.6)**	(45.9)	(47.8)
Deferred tax liabilities		**–**	–	(0.3)
Non-current liabilities		**(200.2)**	(161.2)	(151.9)
Total liabilities		**(955.6)**	(950.3)	(1,002.2)
Net assets		**142.6**	157.7	154.2
Equity				
Share capital		**0.4**	0.4	0.4
Share premium		**62.7**	54.5	55.0
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**90.1**	112.4	110.0
Cash flow hedge reserve		**(16.0)**	(14.0)	(16.0)
Translation reserve		**0.2**	0.2	0.2
Equity attributable to equity holders of the parent		**140.1**	156.2	152.3
Minority interests		**2.5**	1.5	1.9
Total equity		**142.6**	157.7	154.2

Consolidated cash flow statement

For the six months ended 31 December 2012

	Unaudited 6 months to 31 December 2012 £m	Unaudited 6 months to 31 December 2011 £m	Year to 30 June 2012 £m
Cash flows from operating activities			
Profit before tax	**20.9**	32.3	63.0
Adjustments for exceptional items	**2.4**	–	3.6
Other adjustments			
Share of post-tax trading results of joint ventures	**(0.8)**	(0.3)	(1.3)
Normal contributions to pension fund in excess of pension charge	**(6.0)**	(5.1)	(9.7)
Equity settled share-based payments charge	**1.9**	1.3	2.9
Amortisation and impairment of intangible assets	**2.2**	1.7	3.7
Depreciation charges	**5.8**	6.9	13.9
Profit on disposal of joint ventures	**(5.3)**	(6.7)	(6.7)
Profit on disposal of property, plant and equipment	**(0.4)**	(0.7)	(1.4)
Net finance cost	**2.5**	1.4	4.4
Operating cash flows before movements in working capital	**23.2**	30.8	72.4
Special contributions to pension fund	**(9.0)**	(7.1)	(11.1)
(Increase)/decrease in inventories	**(19.3)**	22.3	36.0
Decrease/(increase) in receivables	**19.1**	(20.3)	(63.4)
Decrease in payables	**(88.0)**	(36.0)	(15.4)
Increase/(decrease) in provisions	**3.4**	(3.8)	(2.6)
Cash (outflow)/inflow from operating activities	**(70.6)**	(14.1)	15.9
Dividends received from joint ventures	**0.2**	–	0.3
Interest received	**1.7**	1.8	3.2
Income taxes paid	**–**	(2.2)	(2.1)
Net cash (used in)/generated from operating activities	**(68.7)**	(14.5)	17.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**0.7**	1.5	6.3
Proceeds from sale of joint ventures	**5.3**	8.1	8.1
Purchases of property, plant and equipment	**(7.7)**	(14.4)	(41.2)
Purchase of intangible assets	**–**	–	(1.8)
Disposal of plant business	**13.0**	–	–
Acquisition of subsidiaries	**(30.3)**	(0.2)	(4.5)
Net investment in joint ventures	**(13.1)**	(3.8)	(6.9)
Net cash used in investing activities	**(32.1)**	(8.8)	(40.0)
Cash flows from financing activities			
Issue of shares	**6.8**	0.2	0.3
Purchase of own shares	**(1.9)**	–	(1.2)
Interest paid	**(3.5)**	(1.5)	(3.9)
Inflow from finance leases on property, plant and equipment	**0.2**	–	9.1
New borrowings	**62.7**	–	–
Finance lease repayments	**(0.7)**	–	(0.5)
Dividends paid to equity holders of the parent	**(16.5)**	(9.2)	(17.0)
Dividends paid to minority interests	**(0.2)**	–	(0.1)
Net cash generated from/(used in) financing activities	**46.9**	(10.5)	(13.3)
Decrease in cash and cash equivalents	**(53.9)**	(33.8)	36.0
Opening cash and cash equivalents	**159.1**	195.1	195.1
Closing cash and cash equivalents	**105.2**	161.3	159.1

Notes to the interim financial statements

1 Basis of preparation

Reporting entity
Kier Group plc (the Company) is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements (interim financial statements) of the Company as at, and for the six months ended, 31 December 2012 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The comparative figures for the financial year ended 30 June 2012 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Statement of compliance
These interim condensed 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 Services 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 2012.

These interim condensed financial statements were approved by the directors on 28 February 2013.

Significant accounting policies
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 2012. The amendments to IAS *1 Presentation of Financial Statements* in respect of the presentation of items of other comprehensive income are mandatory for the first time for the financial year ending 30 June 2013. The adoption of these amendments has not resulted in changes to the Group's accounting policies and has not had a material impact on amounts reported in the current or prior years although it has resulted in presentational changes to the consolidated statement of comprehensive income.

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 estimation uncertainty together with the Group's financial risk management objectives and policies were the same as those that applied to the financial statements as at, and for the year ended, 30 June 2012. The principal risks and uncertainties continue to be those which are set out on pages 52 and 53 of the Group's annual report and accounts for the year ended 30 June 2012, under the following headings: legal and regulatory; investment; pensions; availability of finance and bonding facilities; macro-economic climate; people; health, safety and environmental; reputation; contract and build; services; information technology; land and property development acquisition; counterparty and business continuity.

Going concern
The Group has considerable financial resources, together with long-term contracts with a number of customers and suppliers across its business activities. As a consequence, the directors believe that the Group is well placed to manage its business risks effectively. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

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

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 6 to 9.

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

Notes to the interim financial statements (continued)

2 Segmental reporting

Six months to 31 December 2012	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	**626.9**	**210.8**	**137.9**	**–**	**975.6**
Less share of joint ventures	**(2.6)**	**–**	**(53.0)**	**–**	**(55.6)**
Group revenue	**624.3**	**210.8**	**84.9**	**–**	**920.0**
Profit					
Group operating profit	**13.2**	**7.3**	**1.4**	**(0.1)**	**21.8**
Share of joint ventures' operating profit	**0.3**	**–**	**0.4**	**–**	**0.7**
Profit on disposal of joint ventures	**–**	**–**	**5.3**	**–**	**5.3**
Group and share of joint ventures	**13.5**	**7.3**	**7.1**	**(0.1)**	**27.8**
Share of joint ventures – finance cost	**–**	**–**	**0.4**	**–**	**0.4**
– tax	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Profit from operations before exceptional items	**13.5**	**7.3**	**7.1**	**(0.1)**	**27.8**
Exceptional items					
Closure and discontinuation of scaffolding business	**(2.1)**	**–**	**–**	**–**	**(2.1)**
Restructuring activities	**(1.9)**	**(0.4)**	**–**	**–**	**(2.3)**
Profit from operations	**9.5**	**6.9**	**7.1**	**(0.1)**	**23.4**
Finance income/(cost)[2]	**4.2**	**(0.4)**	**(6.7)**	**0.4**	**(2.5)**
Profit before tax	**13.7**	**6.5**	**0.4**	**0.3**	**20.9**
Balance sheet					
Total assets excluding cash	**376.1**	**118.0**	**456.3**	**42.6**	**993.0**
Liabilities excluding borrowings	**(574.3)**	**(106.8)**	**(67.6)**	**(113.8)**	**(862.5)**
Net operating (liabilities)/assets[3]	**(198.2)**	**11.2**	**388.7**	**(71.2)**	**130.5**
Cash, net of borrowings	**313.1**	**23.8**	**(315.6)**	**(9.2)**	**12.1**
Net assets/(liabilities)	**114.9**	**35.0**	**73.1**	**(80.4)**	**142.6**

Six months to 31 December 2011	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	720.3	217.7	107.9	–	1,045.9
Less share of joint ventures	(1.2)	–	(14.3)	–	(15.5)
Group revenue	719.1	217.7	93.6	–	1,030.4
Profit					
Group operating profit	17.8	8.1	2.8	(2.0)	26.7
Share of joint ventures' operating profit	–	–	0.5	–	0.5
Profit on disposal of joint ventures	–	–	6.7	–	6.7
Group and share of joint ventures	17.8	8.1	10.0	(2.0)	33.9
Share of joint ventures – finance cost	–	–	(0.1)	–	(0.1)
– tax	–	–	(0.1)	–	(0.1)
Profit from operations	17.8	8.1	9.8	(2.0)	33.7
Finance income/(cost)[2]	7.1	(0.5)	(7.0)	(1.0)	(1.4)
Profit before tax	24.9	7.6	2.8	(3.0)	32.3
Balance sheet					
Total assets excluding cash	325.1	136.6	461.7	23.3	946.7
Liabilities excluding borrowings	(583.0)	(115.8)	(102.8)	(118.4)	(920.0)
Net operating (liabilities)/assets[3]	(257.9)	20.8	358.9	(95.1)	26.7
Cash, net of borrowings	414.1	16.3	(290.9)	(8.5)	131.0
Net assets/(liabilities)	156.2	37.1	68.0	(103.6)	157.7

2 Segmental reporting continued

Year to 30 June 2012	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,383.5	444.9	240.8	–	2,069.2
Less share of joint ventures	(2.7)	–	(36.0)	–	(38.7)
Group revenue	1,380.8	444.9	204.8	–	2,030.5
Profit					
Group operating profit	35.1	16.7	14.1	(2.9)	63.0
Share of joint ventures' operating profit	0.1	–	1.2	–	1.3
Profit on disposal of joint ventures	–	–	6.7	–	6.7
Group and share of joint ventures	35.2	16.7	22.0	(2.9)	71.0
Share of joint ventures – finance income	–	–	0.2	–	0.2
– tax	–	–	(0.2)	–	(0.2)
Profit from operations before exceptional items	35.2	16.7	22.0	(2.9)	71.0
Exceptional items					
Provision for losses on disposal of the majority of the Plant business	–	(3.2)	–	–	(3.2)
Acquisition costs	–	–	(0.4)	–	(0.4)
Profit from operations	35.2	13.5	21.6	(2.9)	67.4
Finance income/(cost)[2]	12.5	(1.4)	(13.7)	(1.8)	(4.4)
Profit before tax	47.7	12.1	7.9	(4.7)	63.0
Balance sheet					
Total assets excluding cash	376.1	132.9	439.1	49.2	997.3
Liabilities excluding borrowings	(588.3)	(118.1)	(109.5)	(156.0)	(971.9)
Net operating (liabilities)/assets[3]	(212.2)	14.8	329.6	(106.8)	25.4
Cash, net of borrowings	360.6	19.3	(263.4)	12.3	128.8
Net assets/(liabilities)	148.4	34.1	66.2	(94.5)	154.2

1 Revenue is stated after the exclusion of inter-segmental revenue. Inter-segmental pricing is determined on an arm's length basis.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.
3 Net operating (liabilities)/assets represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.

3 Exceptional items

	Unaudited 6 months to 31 December 2012 £m	Unaudited 6 months to 31 December 2011 £m	Year to 30 June 2012 £m
Closure and discontinuation of scaffolding business	**(2.1)**	–	–
Restructuring activities	**(2.3)**	–	–
Provision for losses on disposal of the majority of the Plant business	**–**	–	(3.2)
Acquisition costs	**–**	–	(0.4)
Exceptional items before tax	**(4.4)**	–	(3.6)
Taxation	**1.0**	–	0.8
Exceptional items after tax	**(3.4)**	–	(2.8)

Following a comprehensive review of its operations, particularly its UK building activities, the Group is in the process of restructuring the business to match market conditions. This involves the closure and discontinuation of non-core activities, including the scaffolding business, and restructuring its network of offices.

On 31 July 2012 and 1 August 2012, the Group sold two portfolios of property, plant and equipment for a maximum aggregate consideration of £15.7m. The total impact of these disposals was a loss of £3.2m which was recorded during the year to 30 June 2012.

During the year to 30 June 2012 external costs of £0.4m were incurred and expensed on the acquisition of Biogen (UK) Limited in August 2012.

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 2012 £m		Unaudited 6 months to 31 December 2011 £m		Year to 30 June 2012 £m	
	Kier Group Pension Scheme £m	**Kier Sheffield LLP £m**	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m
Opening (deficit)/surplus	**(59.0)**	**1.2**	(31.1)	1.5	(31.1)	1.5
Credit/(charge) to operating profit	**0.3**	**0.1**	(0.6)	(0.3)	(1.4)	(0.9)
Employer contributions	**13.5**	**1.1**	12.2	0.9	20.9	2.2
Actuarial losses	**(17.5)**	**(3.4)**	(13.4)	(8.3)	(47.4)	(1.6)
Closing (deficit)/surplus	**(62.7)**	**(1.0)**	(32.9)	(6.2)	(59.0)	1.2
Comprising:						
Total market value of assets	**752.7**	**172.3**	716.9	157.3	721.9	161.2
Present value of liabilities	**(815.4)**	**(173.3)**	(749.8)	(163.5)	(780.9)	(160.0)
(Deficit)/surplus	**(62.7)**	**(1.0)**	(32.9)	(6.2)	(59.0)	1.2
Related deferred tax asset/(liability)	**14.4**	**0.2**	8.2	1.6	14.2	(0.3)
Net pension (liability)/asset	**(48.3)**	**(0.8)**	(24.7)	(4.6)	(44.8)	0.9

5 Taxation

The taxation charge for the six months ended 31 December 2012 has been calculated at 18% (June 2012: 13%, December 2011: 20%) of adjusted profit before tax, being profits adjusted for the Group's share of tax in equity accounted joint ventures and excluding exceptional items. This represents the estimated effective rate of tax for the year. Exceptional items are taxed at their underlying rate.

The estimated effective rate of tax of 18% for the year to June 2013 reflects the reduction in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013. In addition to reducing the Group's future tax charge this reduction in tax rate has had the effect of reducing the net deferred tax asset of £29.1m (Group £27.9m asset, joint ventures £1.2m asset) held at 30 June 2012 by £1.9m, with £1.0m being credited to the income statement and £2.9m being charged directly to the statement of comprehensive income.

			Unaudited 6 months to 31 December 2012	Unaudited 6 months to 31 December 2011			Year to 30 June 2012
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**25.3**	**(4.4)**	**20.9**	32.3	66.6	(3.6)	63.0
Adjust: tax on joint ventures included above	**(0.4)**	**–**	**(0.4)**	0.1	0.2	–	0.2
Adjusted profit before tax	**24.9**	**(4.4)**	**20.5**	32.4	66.8	(3.6)	63.2
Current tax	**4.2**	**(1.0)**	**3.2**	0.9	(5.6)	–	(5.6)
Deferred tax (including effect of change in tax rate)	**0.7**	**–**	**0.7**	5.5	14.1	(0.8)	13.3
Total income tax expense in the income statement	**4.9**	**(1.0)**	**3.9**	6.4	8.5	(0.8)	7.7
Tax on joint ventures	**(0.4)**	**–**	**(0.4)**	0.1	0.2	–	0.2
Effective tax charge	**4.5**	**(1.0)**	**3.5**	6.5	8.7	(0.8)	7.9
Rate	**18%**		**17%**	20%	13%		13%

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 2012 £m**	Unaudited 6 months to 31 December 2011 £m	Year to 30 June 2012 £m
Final dividend for the year ended 30 June 2012 of 44.5 pence (2011: 44.0 pence)	**17.3**	16.6	16.6
Interim dividend for the year ended 30 June 2012 of 21.5 pence	**–**	–	8.2
	17.3	16.6	24.8

The proposed interim dividend for the year ending 30 June 2013 of 21.5 pence (2012: 21.5 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £8.5m will be paid on 17 May 2013 to shareholders on the register at the close of business on 8 March 2013. A scrip dividend alternative will be offered.

7 Earnings per share

	Unaudited 6 months to 31 December 2012		Unaudited 6 months to 31 December 2011		Year to 30 June 2012	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**16.2**	**16.2**	25.3	25.3	54.2	54.2
Exclude: exceptional items	**4.4**	**4.4**	–	–	3.6	3.6
Tax thereon	**(1.0)**	**(1.0)**	–	–	(0.8)	(0.8)
Earnings excluding exceptional items	**19.6**	**19.6**	25.3	25.3	57.0	57.0
Add: amortisation of intangible assets relating to contract rights	**1.7**	**1.7**	1.7	1.7	3.4	3.4
Less: tax thereon	**(0.4)**	**(0.4)**	(0.5)	(0.5)	(0.8)	(0.8)
Adjusted earnings	**20.9**	**20.9**	26.5	26.5	59.6	59.6
	million	**million**	million	million	million	million
Weighted average number of shares	**39.1**	**39.1**	37.7	37.7	38.0	38.0
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.1**	–	0.5	–	0.7
Weighted average number of shares used for earnings per share	**39.1**	**39.2**	37.7	38.2	38.0	38.7
	pence	**pence**	pence	pence	pence	pence
Earnings per share	**41.4**	**41.3**	67.1	66.2	142.6	140.1
Earnings per share (excluding exceptional items)	**50.1**	**50.0**	67.1	66.2	150.0	147.3
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets relating to contract rights)	**53.5**	**53.3**	70.3	69.4	156.8	154.0

8 Cash, cash equivalents and borrowings

	Unaudited 6 months to 31 December 2012 £m	Unaudited 6 months to 31 December 2011 £m	Year to 30 June 2012 £m
Net funds consist of:			
Cash and cash equivalents	**105.2**	161.3	159.1
Borrowings	**(93.1)**	(30.3)	(30.3)
Net funds	**12.1**	131.0	128.8
Reconciliation of net cash flow to movement in net funds			
Increase in borrowings	**(62.8)**	–	–
Decrease in cash and cash equivalents	**(53.9)**	(33.8)	(36.0)
Opening net funds	**128.8**	164.8	164.8
Closing net funds	**12.1**	131.0	128.8

On 20 December 2012, the Company issued 7-year and 10-year notes in aggregate principal amounts of £45 million and US$28 million in four series, with coupons ranging from 4.2% to 4.8% per annum.

Notes to the interim financial statements (continued)

9 Share-based payments

The Group has established a Long-Term Incentive Plan (LTIP) under which directors and senior employees can receive awards of shares subject to the Group achieving targets. Further details of the LTIP were disclosed in the 2012 annual financial statements. 278,714 shares have vested under the LTIP during the six months to 31 December 2012.

On 14 September 2012 grants were made under the LTIP as follows:

Shares granted	695,901
Share price at grant	1,415p
Exercise price	nil
Option life	3 years
Expected volatility	28.1%
Dividend yield	4.72%
Risk-free interest rate	0.37%
Value per option:	
TSR element (based upon a stochastic model)	628p
EPS element (based upon the Black-Scholes model)	1,214p

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 element 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 this element is based on the fair value factored by a 'true up' for the number of awards that are expected to vest.

10 Related parties

Transactions with key management personnel
In October 2010, Kier Homes Limited entered into a consultancy agreement with Princegate Estates PLC ("Princegate"), under which Princegate provided the Group with the services of Mr John Anderson to act as the managing director of the Group's private house-building business. The arrangements were terminated with effect from 30 June 2012. No payments were made during the period (six months to 31 December 2011: £208,000; year to 30 June 2012: £454,000).

The Group has entered into arrangements with Mission Recycling Worcester Limited ("Mission") to sell recycled commodities through its subsidiary, Pure Recycling Warwick Limited ("Pure"). Mission is deemed a related party of the Group as it shares a common director with Pure. The Group generated revenue levels of £4.3m in the period (six months to 31 December 2011: £2.3m, year to 30 June 2012: £7.6m) on an arm's length basis through transactions with Mission. At 31 December 2012, £0.8m (31 December 2011: £0.6m, 30 June 2012: £0.7m) was owed to the Group by Mission, of which none was provided for (31 December 2011 and 30 June 2012: £nil). No bad debts with respect to amounts owed by Mission were written off during the period (six months to 31 December 2011 and year to 30 June 2012: £nil).

Transactions with pension schemes
In December 2011 the Group made a special cash contribution of £3.1m to the Kier Group Pension Scheme which was settled through the transfer of the Group's 50% interest in Hinchingbrooke Hospital PFI project (Prospect Healthcare (Hinchingbrooke) Holdings Limited).

There have been no other significant changes in the nature and amount of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2012.

10 Subsequent events

On 11 January 2013, Kier entered into a £30 million unsecured 4-year bilateral loan with Lloyds Bank Commercial Banking, which was provided under the UK Government's Funding for Lending Scheme and has been drawn down in full.

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

We confirm that to the best of our knowledge:

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

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

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

Signed on behalf of the Board

M P Sheffield
Chief Executive

H J Mursell
Finance Director

28 February 2013

Independent review report to Kier Group plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2012 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (DTR) of the UK's Financial Services Authority (UK FSA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the DTR of the UK FSA.

Andrew Marshall
For and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

28 February 2013

Corporate information

Directors
P M White CBE FCA Chairman
M P Sheffield BSc CEng FICE Chief Executive
S Bowcott BSc
I M Lawson FCIOB
H J Mursell BA ACA
R C Bailey BA ACA
C V Geoghegan BA FRAeS
A J Mellor BSc
N P Winser CEng FIET FIGEM
H E E Raven BA Secretary

Headquarters and Registered Office
Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD
Telephone: 01767 640111
www.kier.co.uk

Registered Number
England 2708030

Financial Calendar

17 May 2013
Payment of interim dividend

12 September 2013
Announcement of preliminary full-year results and final dividend

14 November 2013
Annual General Meeting

November/December 2013
Payment of final dividend

Auditors
KPMG Audit Plc
15 Canada Square
Canary Wharf
London
E14 5GL

Bankers
Royal Bank of Scotland PLC
280 Bishopsgate
London
EC2M 4RB

HSBC
Metropolitan House
321 Avebury Boulevard
Milton Keynes
MK9 2GA

Santander Corporate Banking
2 Triton Square
Regent's Place
London
WM1 3AN

Lloyds Banking Group plc
10 Gresham Street
London
EC2V 7AE

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Stockbrokers
J. P. Morgan Cazenove
20 Moorgate
London
EC2R 6DA

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

KIER
DEFINING TOMORROW'S ENVIRONMENTS

Kier Group plc
Tempsford Hall, Sandy
Bedfordshire SG19 2BD
Tel: 01767 640111
Fax: 01767 640002
kier.co.uk