5 March 2020

Kier Group plc

Results for the six months ended 31 December 2019

Kier Group plc (the "Company" or the "Group"), a leading construction and infrastructure services company, announces its results for the six months ended 31 December 2019 (the "period").

Key Points

- Decisive management actions resulted in operating profit[1] increasing by 3.4%[2] on a like-for-like basis and margins of 2.5% (H1 2019: 2.0%)
- Operating profit of £46.7m[1]
- Challenging market conditions impacted Group revenue; down by 9%
- Cost savings of £23m delivered in the period
- Statutory operating loss reduced to £(24)m
- Net debt[5] as at 31 December 2019 in line with expectations at £242m, with average month-end net debt falling to £395m
- Kier Living disposal:
    - New management team in place from February 2020
    - Sale process is progressing
- Performance Excellence programme launched

Key Financial Highlights – Continuing Operations

	6 months to 31 December 2019	6 months to 31 December 2018[3]
Before exceptional items		
Revenue (£m)[4]	**1,866**	2,053
Operating profit (£m)[1]	**46.7**	41.9
Operating margin	**2.5%**	2.0%
Profit before tax (£m)[1]	**30.7**	30.2
Basic earnings per share (note 8)	**15.0p**	21.4p
Net debt (£m)[5]	**242.5**	180.5
Statutory		
Group revenue (£m)	**1,819**	1,983
(Loss) from operations (£m)	**(24.4)**	(32.5)
(Loss) before tax (£m)	**(41.2)**	(45.3)
Basic earnings per share (note 8)	**(22.1)p**	(38.4)p
Interim dividend per share	**-**	4.9p

Andrew Davies, Chief Executive, said:

"I am pleased to report that many of the actions we outlined at the beginning of the year have been executed successfully. In particular, the decisive cost actions we have taken are now benefiting the Group and have more than compensated for the challenging market conditions we experienced in the period. These actions resulted in an increase of 3.4% in operating profit before exceptionals and the impact of IFRS 16.

[1] Stated before exceptional items of £59.3m (2018: £61.6m) and amortisation of acquired intangible assets of £11.8m (2018: £12.8m).
[2] Excluding the impact of IFRS16.
[3] Restated for (i) the changes in the disclosure of the results of the Mining operations and the Mersey Gateway project and (ii) the classification of the Living division as a discontinued operation.
[4] Revenue of the Group and its share of joint ventures.
[5] Disclosed net of the effect of hedging instruments and excludes leases - see note 10 to the interim financial statements.

The Group has been awarded places on several major frameworks since 1 January 2020, following the awards of c.£1.7bn in the period, and the Government has recently confirmed that the HS2 project will proceed. We have a new executive management team in place; we are continuing to embed Performance Excellence; and our cost reduction programme is expected to deliver benefits of at least £65m by 30 June 2021. We expect to reduce the capital invested in our non-core businesses and to progress the sale of Living. The work to re-shape the Group continues, as we focus on executing our strategic priorities and reducing net debt."

Further Information:

Kier Group plc **+44 (0) 1767 355 096**
Kier Press office

FTI Consulting **+44 (0) 20 3727 1340**
Richard Mountain / Nick Hasell

There will be a call for analysts and investors at 9:00 a.m. The dial in details are:

UK	+44 3333 000 804	PIN: 41577993#
UK (free)	0800 358 9473	PIN: 41577993#

Cautionary Statement

This announcement does not constitute an offer of securities by the Company. Nothing in this announcement is intended to be, or intended to be construed as, a profit forecast or a guide as to the performance, financial or otherwise, of the Company or the Group whether in the current or any future financial year. This announcement may include statements that are, or may be deemed to be, ''forward-looking statements''. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms ''believes'', ''estimates'', ''anticipates'', ''expects'', ''intends'', ''plans'', ''target'', ''aim'', ''may'', ''will'', ''would'', ''could'' or ''should'' or, in each case, their negative or other variations or comparable terminology. They may appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of the directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of the Group or the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual operating results, financial condition, dividend policy or the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in this announcement. In addition, even if the operating results, financial condition and dividend policy of the Group, or the development of the industry in which it operates, are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, changes in political and economic stability and changes in business strategy or development plans and other risks.

Other than in accordance with its legal or regulatory obligations, the Company does not accept any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Principal Risks and Uncertainties

You are advised to read the section headed ''Principal risks and uncertainties'' in the Company's Annual Report and Accounts for the year ended 30 June 2019 for a discussion of the factors that could affect the Group's future performance and the industry in which it operates. The Board believes that these principal risks and uncertainties will continue to apply to the Group in the second-half of the financial year.

The Group is monitoring developments relating to the outbreak of Coronavirus (COVID-19) and is taking steps to mitigate its potential effect on the Group's operations, including ensuring that business continuity plans are in place, encouraging increased levels of office cleanliness and communicating Public Health England's advice to its staff.

About Kier

Kier is a leading UK construction and infrastructure services group. The services we offer to our clients fit in to two core market propositions; Construction and Infrastructure Services.

We provide specialist design and build capabilities and the knowledge, skills and intellectual capital of our people ensure we are able to project manage and integrate all aspects of a project.

We take pride in bringing specialist knowledge, sector-leading experience and fresh thinking to create workable solutions for our clients across the country.

Together, we have the scale and breadth of skills of a major company, while retaining a local focus and pride that comes from never being far from our clients, through a network of offices spanning across England, Wales, Scotland and Northern Ireland.

For further information and to subscribe to our news alerts, please visit: www.kier.co.uk
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Results Summary

Kier's results for the period reflected the decisive cost actions that we have taken to build the firm foundations for the future of the Group. In the period, headcount has reduced by c.420, the Group has exited its office at Foley Street in London and the process to close its headquarters at Tempsford Hall in Bedfordshire is underway.

Revenues in the period fell by 9% to £1,866m, primarily due to challenging market conditions affecting both Infrastructure Services and Construction, where revenues were down 10% and 7%, respectively. Several long-term investment programmes, for example the Road Investment Strategy 1, concluded during the period.

Group operating results, both before and after exceptional items, increased in the period primarily due to the realisation of significant overhead cost savings, a lower level of exceptional items and the inclusion of £3.4m arising from the IFRS16 accounting change.

Group net debt as at 31 December 2019 was £242m, in line with expectations, representing a cash outflow from 30 June 2019, which was largely caused by the usual first-half unwind of working capital, a reduction in the Kier Early Payment System utilisation of £13m and exceptional payments required to access future benefits of the cost saving programme. Average month-end net debt for the period was £395m, a reduction of £27m from FY19.

The order book at 31 December 2019 was £7.9bn (30 June 2019[1]: £7.9bn), with the Group winning orders of c.£1.7bn in the period, including being appointed to all 20 lots of the four-year £8bn Procure Partnerships Framework, as well as being appointed to a number of other frameworks, including the £30bn Construction Works and Associated Services Framework for the Crown Commercial Service.

In addition, the Group has been appointed to a number of other frameworks since, 1 January 2020, including the £2bn Hyde Main Contractor Framework and the £1.2bn Islington New Build Construction Framework.

Strategy

Last year's strategic review concluded that the Group needed to further simplify its structure, better allocate its capital resources, identify additional steps to improve cash generation and reduce net debt. During the period, the management team has focused on achieving these strategic priorities.

Kier has a number of high-quality, market-leading businesses, in particular Regional Building, Highways, Utilities and Infrastructure, which support the sustainability of our business model. These businesses operate under long-term frameworks which require strong client relationships and sector expertise. Once appointed to a framework, we have the opportunity to tender for a range of projects over a number of years, which provides good visibility of future work, reduces risk and leverages our key operational strengths. These businesses, which are inherently cash generative, make up the core of the Group.

Our Housing Maintenance business complements our Regional Building business. Housing Maintenance will continue to seek opportunities with housing associations, local authorities and private landlords for planned maintenance contracts, including fire safety works. The International business, which principally operates in Dubai, continues to tender selectively for new work.

The strategic review also concluded that several of our businesses were not compatible with the Group's working capital objectives:

- Residential: Kier Living is a strong business but has limited operational synergies with other parts of the Group and requires significant ongoing funding to deliver future growth. This business is now classified as discontinued and is expected to be disposed of within the next 12 months. There is a new management team in place and the sales process is progressing.
- Property: the investment requirements of the Property business are not currently compatible with the Group's capital allocation requirements. As a result, we are formalising plans to reduce the capital invested in the business. During the period, the capital invested in the business has reduced to £168m (2019: £184m). We are also exploring options to accelerate the release of capital from the business.

- Environmental Services: the focus remains on winding down this business.
- Facilities Management: the exit of this business has progressed well, following the conclusion of several contracts during the period, with further contracts planned to be exited during the second-half of the year. Where losses have been incurred in exiting business, these are disclosed within exceptional items.

[1]Restated, principally to reflect the exclusion of HS2.

Cost Saving Programme

During the period, there have been a number of structural changes to the Group, including an increase in the level of divisional accountability, the removal of a number of layers of management and a significant reduction in the central overhead. These actions have resulted in the Group's headcount reducing by c.1,200 and we expect a further c.50 to have left the business by 30 June 2020. These reductions in headcount will result in cost savings of at least £65m by 30 June 2021.

Performance Excellence

Performance Excellence aims to embed a culture which is based on the Group's refreshed values, builds on the strengths of the Group and provides the platform to:

- Deliver projects on time and to budget, thereby meeting our clients' and customers' expectations;
- Avoid entering into contracts with unacceptable risk profiles;
- Introduce increased levels of resilience, and a consistency of approach, across the Group; and
- Substantially reduce the Group's overheads,

thereby enhancing the Group's ability to win new business with attractive margins.

Performance Excellence will help to maintain and grow the Group's relationships with its key stakeholders, including, for example, the Group's supply chain. During the period, the Group reported that 81% of invoices were paid within 60 days and the average time to pay reduced to 38 days, an improvement over the previous six months and significantly down from an average of 57 days a year ago.

Board and Management Changes

During the period, there have been a number of changes in senior management, including the appointment of a new Chairman and Chief Financial Officer. The executive team has been strengthened through the appointment of new Group Managing Directors for the Construction and Highways divisions. Central support functions have been enhanced through the appointment of new HR, IT, Commercial and Procurement Directors and a new Group Financial Controller.

Operational Review

Construction

	6 months to 31 December 2019	6 months to 31 December 2018[1]
Revenue (£m)	**844.0**	909.3
Operating profit (£m)[2]	**28.8**	36.4
Operating margin	**3.4%**	4.0%
Order book (£bn)	**2.6**	2.6[3]

- Key contract awards include the £30bn Construction Works and Associated Services Framework for the Crown Commercial Service and the contract to build a new Town Hall as part of the £150m Crawley Town Centre regeneration scheme
- With 100% secured for the second half of FY20, the business looks well placed for FY21

The Construction segment comprises the Regional Building business, the Strategic Projects business, the complementary Housing Maintenance business, as well as the International business. It covers all regions of the UK, delivering schools, hospitals, office buildings and amenities centres of local authorities, councils and the private sector.

Revenue decreased by 7% and operating profit fell 21%, primarily due to the impact of the challenging market conditions. However, since 1 January 2020, the Group has been awarded places on several major frameworks, providing a good pipeline of potential work although, due to the typical length of time between contract and the

[1] Prior year comparative information re-presented to show the new reporting segments - see note 1 to the interim financial statements.
[2] Stated before exceptional items and amortisation of acquired intangible assets.
[3] As at 30 June 2019.

commencement of works, we anticipate that Construction revenues in the second-half of the financial year will be more in line with those in the period than in the second-half of prior financial years.

Regional Building continued to generate opportunities, principally through frameworks. Key frameworks awarded in the period included the £30bn Construction Works and Associated Services Framework for the Crown Commercial Service, the £2bn Hyde Main Contractor Framework and the £125m Norfolk County Council Major Construction Work Framework. Contracts awarded in January 2020 included the construction of a new Town Hall as part of the £150m Crawley Town Centre regeneration scheme.

In Strategic Projects, work continues on the £250m Wellingborough Prison and at RAF Lakenheath. The business continues to focus on the defence, science, commercial, custodial and aviation sectors.

Housing Maintenance specialises in working in occupied properties, delivering maintenance, repairs, fire safety and compliance services. Revenue and profit performance were both below last year. The business now operates under a new operating structure and this, combined with significant changes to contract delivery with clear visibility of future work, is expected to provide it with a clear path to recovery. New awards in the period included fire safety works for the London Borough of Hammersmith and Fulham and an £8m three-year agreement with housing association Gentoo Group for planned maintenance work.

The Dubai-based International business traded well in the period and its more rigorous bidding process resulted in its profit growing from last year.

Infrastructure Services

	6 months to 31 December 2019	6 months to 31 December 2018[1]
Revenue (£m)	**783.2**	870.7
Operating profit (£m)[2]	**27.6**	40.3
Operating margin	**3.5%**	4.6%
Order book (£bn)	**4.3**	4.3[3]

- Key contract wins include a 15-month award from Birmingham Highways for highways maintenance services and a five-year contract with Openreach to carry out network delivery works
- Early works and contract mobilisation have commenced on HS2, with construction currently expected to start later in 2020

The Infrastructure Services segment comprises the Highways, Infrastructure and Utilities and Rail businesses.

The results have been impacted by the continuing change in the mix of work in the Highways business from maintenance to lower margin capital projects. The transition to the 2020-2025 AMP7 regulatory period has also adversely affected the Utilities' performance in the period and we anticipate this effect to peak in the second-half of the financial year.

The Highways business builds and maintains roads for Highways England and a number of district and county councils. The business was recently awarded a 15-month contract from Birmingham Highways for the provision of interim maintenance services, commencing in April 2020, and a contract extension with Northamptonshire County Council, which provides greater certainty of workload for the immediate future. Work continues on the M6, M20 and M23 Smart Motorway projects, with completion of M20 and M23 targeted for the second-half of the year, and work on the Windy Harbour scheme awarded under the Highways England Regional Delivery Partnerships Framework has commenced.

The Infrastructure business delivers major and complex infrastructure and civil engineering projects, including the HS2 project in joint venture with Eiffage and the Luton DART rail system at Luton Airport in joint venture with VolkerFitzpatrick. Revenue and profit for the period were below the prior comparative period, primarily due to phasing on some new projects. Following the Government's recent announcement relating to HS2, early works and contract mobilisation have continued, ahead of construction starting later in 2020.

The Utilities business delivers long-term contracts providing construction and maintenance services to the water, energy, rail and telecommunications sectors. The business has primarily focused on margin enhancement and has exited some lower return contracts, resulting in revenue and profit being below the prior comparative period. The business has been awarded key contracts with new clients Openreach, to carry out fibre delivery works,

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[3] As at 30 June 2019.

Yorkshire Water, for capital works, and Virgin Media, for the fibre network civil engineering works programme. The business pipeline for high-quality, long-term infrastructure works is strong.

Other

	6 months to 31 December 2019	6 months to 31 December 2018[1]
Revenue (£m)	**233.3**	273.3
Operating profit (£m)[2]	**4.3**	0.2
Operating margin	**1.8%**	-%
Order book (£bn)	**1.0**	1.0[3]

The Other segment comprises the businesses which are expected to be divested, exited or restructured or are being evaluated, namely, the Property, Environmental Services and Facilities Management businesses.

The Property business invests and develops schemes and sites across the UK. Profit before exceptional items was behind last year principally due to delays in the completion of certain projects and its reduced access to capital. Management is reviewing options to further release capital from the business.

The Facilities Management business provides management and maintenance solutions for its clients. With a number of contracts exited in the period and further exits planned for the rest of the year, the Group has made good progress in relation to exiting the business.

The Environmental Services business provides waste collection and recycling services. Plans are well advanced for the wind-down and exit of the business, which is anticipated to have been completed by the end of the financial year. Revenues were behind the prior comparative period, although losses have significantly reduced as contracts have been exited.

Corporate

	6 months to 31 December 2019	6 months to 31 December 2018[1]
Operating profit (£m)[2]	**(14.0)**	(35.0)

The Corporate segment comprises the costs of the Group's central functions. During the period, there has been a significant reduction in these costs, following the implementation of the Group's cost reduction programme.

Safety, Health and Environment ('SHE')

The safety and wellbeing of our employees and suppliers remain of paramount importance. The Group's overall, SHE performance has improved significantly year-on-year since 2015. The rate of improvement has slowed recently and in, the last six months, our average AIR has increased from 86 (six months ended 31 December 2018) to 114 (six months ended 31 December 2019). To address this, we have relaunched our campaign to raise awareness of doing the safety basics rigorously and effectively.

Summary and Outlook

Many of the actions outlined by the Group at the beginning of the year have been executed successfully. In particular, the decisive cost actions which have been taken are now benefiting the Group and have more than compensated for the challenging market conditions experienced in the period. These actions resulted in an increase of 3.4% in operating profit before exceptionals and the impact of IFRS 16.

The Group has been awarded places on several major frameworks since 1 January 2020, following the awards of c.£1.7bn in the period, and the Government has recently confirmed that the HS2 project will proceed. A new executive management team is in place; the Group is continuing to embed Performance Excellence; and its cost reduction programme is expected to deliver benefits of at least £65m by 30 June 2021. The Group expects to reduce the capital invested in its non-core businesses and to progress the sale of Living. The work to re-shape the Group continues, as it focuses on executing its strategic priorities and reducing net debt.

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[3] As at 30 June 2019.

Financial Review

Assets held for sale and discontinued operations

Following the Group's 2019 strategic review, the Board concluded that Kier Living is not compatible with the Group's working capital objectives and that it would seek to sell the business. Accordingly, the assets and liabilities of Kier Living were classified as held for sale, with assets of £229.9m and liabilities of £104.9m at 31 December 2019.

The results for Kier Living for the period are classified as discontinued, including restatement of the prior period comparatives. Kier Living's profit before exceptional items and after tax for the period was £4.0m (HY19: £9.8m, FY19: £36.2m).

Earnings per share

Earnings per share ("EPS"), before exceptional items and amortisation of acquired intangible assets, from continuing operations were earnings of 15.0p (HY19: 21.4p, FY19: 30.9p). EPS, after exceptional items and amortisation of acquired intangible assets, from continuing operations were losses of 22.1p (HY19: 38.4p, FY19: 146.9p).

Exceptional items and amortisation of acquired intangible assets

In the period, the Group reported charges of £71.1m before tax and interest (HY19: £74.4m, FY19: £289.2m):

- Amortisation of acquired intangible assets £11.8m (HY19: £12.8m, FY19: £24.8m):
  Comprises the amortisation of acquired contract rights primarily relating to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. These charges have no future cash impact.

- Costs associated with previous acquisitions £3.1m (HY19: £0.1m gain, FY19: £29.3m):
  The Group has recognised a £3.1m charge in the period in respect of the contracts acquired as part of the 2017 Mouchel acquisition and its subsequent integration. These non-recurring costs are expected to be completed in the financial year. The charges have resulted in a cash outflow in the period of £3.1m.

- Restructuring costs £48.8m (HY19: £nil, FY19: £56.1m):
  The Group has incurred restructuring costs in the period totalling £48.8m. This includes £16.8m in respect of employee exit costs associated with cost saving programmes and from strategic decisions taken to reduce headcount. Fees of £18.1m have been incurred in undertaking and implementing the conclusions of the strategic review announced in June 2019 and the cost reductions described above. £13.6m of impairment charges have been recognised during the period and £3.5m of previous impairment charges have been released in relation to the relocation of corporate offices. £3.8m of one-off costs have been incurred in preparation for outsourcing Fleet and IT activities. Of this total, £9.6m relates to impairment of right of use asset, £6.9m is held within accruals, £2.4m is a reduction of receivables and the remainder resulted in a cash outflow in the period.

- Costs relating to the preparation of businesses for sale £7.4m (HY19: £26.9m, FY19: £120.4m):
  The Group has incurred costs of £2.9m to exit contracts and fair value adjustments of £2.1m on certain assets held for sale. A further £2.4m has been incurred in impairing software. Of this total, £2.4m has resulted in a cash outflow in the period, £2.9m is held within accruals and the remaining £2.1m will result in a lower cash inflow from disposal proceeds in the second-half of the financial year.

In addition to the £71.1m of exceptional charges incurred from continuing operations, £59.5m of charges, net of tax, have been incurred from discontinued operations. This is a fair value impairment of the net assets held for sale of the Living division.

The classification used is consistent with FY19, although the results for the period require restatement to align to the new alternative performance measure presentation, which was adopted by the Group for the first time at 30 June 2019. A reconciliation has been included in note 1 to the interim financial statements.

Finance charges

Bank interest has fallen to £12.2m (HY19: £12.8m, FY19: £24.7m). Finance costs now includes £3.7m of costs relating to interest and finance charges for lease liabilities as a result of the implementation of IFRS16. Under the previous GAAP, finance leases charges were significantly lower (HY19: £0.1m, FY19: £0.2m).

Balance sheet

Net assets

The Group had net assets of £386.3m at 31 December 2019 (HY19: £696.1m, FY19: £519.6m).

Working capital

Working capital movements resulted in an outflow for the period of £76m (HY19: £220m, FY19: £182m), which was significantly lower than in previous years, despite a £13m reduction in the utilisation of the Kier Early Payment Scheme ("KEPS"). We anticipate that the re-shaped Group, following the implementation of the strategic actions, will have an improved working capital profile in the medium-term.

Goodwill

The Group held intangible assets of £741.5m (HY19: £829.9m, FY19: £766.7m), of which goodwill represented £536.7m (HY19: £549.6m, FY19: £536.7m). Planned disposals of businesses during FY19 resulted in an impairment to goodwill of £8.0m. The directors reviewed goodwill as at 31 December 2019, assuming a pre-tax discount rate derived from a weighted average cost of capital of 10.1%, and concluded that no impairment was required.

Retirement benefits obligation

Kier operates a number of defined benefit pension schemes. At 31 December 2019, the reported surplus, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £2.9m (HY19: £16.5m deficit, FY19: £19.5m surplus), before accounting for deferred tax.

Accounting policies

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). One new accounting standard was adopted by Kier during the period, namely, IFRS 16 ('Leases'), further details of which are provided in note 17 to the interim financial statements. Other than this standard, there has been no significant changes to the Group's accounting policies during the period.

The main impact of IFRS 16 has been 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 lease obligations. Operating lease charges in respect of these leases, previously included in administrative expenses, have been replaced by depreciation and interest costs. The cash flow associated with these leases has not changed.

The Group has transitioned to IFRS 16 using the modified retrospective approach whereby the cumulative impact of applying the standard is accounted for as an adjustment to equity at the start of the accounting period in which it is first applied (i.e. 1 July 2019).

IFRS 16 has introduced a new category of non-current assets for 'right-of-use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right-of-use assets was less than the additional lease borrowings that came on to the balance sheet.

Additional lease liabilities of £187.9m have been brought onto the balance sheet along with associated right-of-use assets of £173.0m (including £7.6m of assets previously classified as property, plant and equipment held under finance leases). In addition, prepaid rental amounts of £2.1m, accruals of £0.2m and onerous lease provisions of £4.4m have been removed from the balance sheet and a deferred tax asset of £3.4m has been recognised in respect of the transitional adjustments. The net impact of these adjustments is a debit to opening reserves at 1 July 2019 of £16.6m. In respect of the Income Statement for the six months ended 31 December 2019, depreciation and interest charges under IFRS 16 were £0.1m more than the operating lease expenses that would have been charged under the previous leases accounting standard. Due to the differing methods of calculation, the impairment of the right-of-use assets under IFRS 16 were £2.4m less than the onerous lease provision that would have been calculated under the previous accounting standards. Therefore, had IFRS 16 not been introduced, total profit before tax would have been £2.3m lower than the reported figure for the six-month period (see note 17).

Historically, Kier has not included finance lease liabilities within its measure of net debt, due to their asset-backed nature. Therefore, whilst IFRS 16 has brought additional lease liabilities onto the balances sheet, the standard has had no effect on the Group's net debt measure, which has been calculated consistently with previous reporting periods.

Treasury facilities

Bank finance

The Group has committed debt facilities of £892m with a further £20m of uncommitted overdrafts. Bank debt will mature in July 2022 and US private placement notes mature between 2020 and 2024. The Group repaid debt of £30m during the period.

Supply chain finance

The Group offers its supply chain in the Construction and the Residential businesses the opportunity to participate in KEPS. The balance owed on this facility is included in trade creditors. The balance at 31 December 2019 was £157m (HY19: £201m, FY19: £170m). The Company plans to reduce further its use of KEPS during the remainder of the financial year.

Financial instruments

The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and Property joint ventures, enters into derivative transactions (principally interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. The US dollar denominated USPP notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. The Group does not enter into speculative transactions. There are minor foreign currency risks arising from the Group's operations.

The Group has a limited number of international operations in different currencies. Currency exposure to international assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where there may be further exposure to currency fluctuations, forward exchange contracts are completed to buy and sell foreign currency.

Going concern

The directors continue to adopt the going concern basis in preparing the Group's interim financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Infrastructure, Utilities and Highways; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£60m from FY21; and to embed a culture of performance excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 4 March 2020, the Group continues to progress its disposal of Kier Living and has taken cost reduction actions to realise annualised benefits above its original FY21 target. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 31 December 2019, the Group had £892m of unsecured committed facilities and £20m of uncommitted overdrafts. At 31 December 2019, KEPS utilisation was £157m.

The directors have reviewed the Group’s short-term cash flow forecasts to 30 June 2021, which are included in the Group’s three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans and delivery of the business disposal programme. This stress-testing also considered a combination of the individual downside profit and cashflow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. The Group’s Brexit Task Force focuses on responding to emerging Government pronouncements as Brexit negotiations unfold. To date, this has looked closely in particular at the UK points-based immigration strategy announced. Work has been undertaken to understand the Group’s exposure and to communicate with its existing EEA workforce, in order to encourage and support applications under the EU Settlement Scheme to secure the right to remain. The Group is also working closely with its supply chain to understand their level of preparedness.

The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

As a responsible business, the health and welfare of our people is paramount. We are closely monitoring and following Government advice in relation to the outbreak of Coronavirus (COVID-19) and have provided our employees with guidance and precautions to follow. We are ready to implement business continuity plans if necessary. This issue is owned at Group level and has been escalated to, and considered by, the Safety, Health and Environment Committee of the Board.

As a result, the directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing these interim financial statements.

Statement of directors' responsibilities

The directors confirm that these interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of Kier Group plc are listed on pages 54 and 55 of its 2019 Annual Report and Accounts, with the following exceptions:

- Bev Dew (September 2019), Claudio Veritiero (November 2019), Philip Cox (December 2019) and Adam Walker (December 2019) have left the Board since the date on which the 2019 Annual Report and Accounts were approved by the Board; and
- Matthew Lester joined the Board as Chairman on 1 January 2020.

A list of the current directors is maintained on Kier Group plc's website at: www.kier.co.uk.

Signed on 4 March 2020 on behalf of the Board.

Andrew Davies	**Simon Kesterton**
Chief Executive	**Chief Financial Officer**

Independent review report to Kier Group plc

Report on the interim financial statements

Our conclusion
We have reviewed Kier Group plc's 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 2019. 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 2019;
- 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.

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
4 March 2020

Consolidated income statement

For the six months ended 31 December 2019

Continuing operations	Notes	**Unaudited 6 months to 31 December 2019** Before exceptional items £m	Exceptional items (note 3)[1] £m	Total £m	Unaudited 6 months to 31 December 2018 Restated[2, 3] Before exceptional items £m	Exceptional items (note 3)[1] £m	Total £m	Year to 30 June 2019 Restated[3] Before exceptional items £m	Exceptional items (note 3)[1] £m	Total £m
Revenue										
Group and share of joint ventures	2	**1,866.0**	**-**	**1,866.0**	2,053.3	(15.0)	2,038.3	4,121.0	(15.0)	4,106.0
Less share of joint ventures	2	**(46.8)**	**-**	**(46.8)**	(55.1)	-	(55.1)	(154.9)	-	(154.9)
Group revenue		**1,819.2**	**-**	**1,819.2**	1,998.2	(15.0)	1,983.2	3,966.1	(15.0)	3,951.1
Cost of sales		**(1,657.7)**	**-**	**(1,657.7)**	(1,783.0)	(39.8)	(1,822.8)	(3,598.5)	(61.2)	(3,659.7)
Gross profit/(loss)		**161.5**	**-**	**161.5**	215.2	(54.8)	160.4	367.6	(76.2)	291.4
Administrative expenses		**(120.2)**	**(71.1)**	**(191.3)**	(180.5)	(18.8)	(199.3)	(292.0)	(212.6)	(504.6)
Share of post-tax results of joint ventures		**5.5**	**-**	**5.5**	7.2	-	7.2	10.1	-	10.1
Loss on disposal of joint ventures and subsidiaries	13	**(0.1)**	**-**	**(0.1)**	-	(0.8)	(0.8)	-	(0.4)	(0.4)
Profit/(loss) from operations	2	**46.7**	**(71.1)**	**(24.4)**	41.9	(74.4)	(32.5)	85.7	(289.2)	(203.5)
Finance income		**0.3**	**-**	**0.3**	1.0	-	1.0	0.2	-	0.2
Finance cost	4	**(16.3)**	**(0.8)**	**(17.1)**	(12.7)	(1.1)	(13.8)	(24.5)	(1.7)	(26.2)
Profit/(loss) before tax	2	**30.7**	**(71.9)**	**(41.2)**	30.2	(75.5)	(45.3)	61.4	(290.9)	(229.5)
Taxation	6	**(6.5)**	**11.9**	**5.4**	(7.6)	12.9	5.3	(20.2)	55.9	35.7
Profit/(loss) for the period from continuing operations		**24.2**	**(60.0)**	**(35.8)**	22.6	(62.6)	(40.0)	41.2	(235.0)	(193.8)
Discontinued operations										
Profit/(loss) for the period from discontinued operations (attributable to equity holders of the parent)	9	**4.0**	**(59.5)**	**(55.5)**	9.8	-	9.8	36.2	(51.6)	(15.4)
Profit/(loss) for the period		**28.2**	**(119.5)**	**(91.3)**	32.4	(62.6)	(30.2)	77.4	(286.6)	(209.2)
Attributable to:										
Owners of the parent		**28.3**	**(119.5)**	**(91.2)**	31.8	(61.6)	(29.8)	77.0	(286.6)	(209.6)
Non-controlling interests		**(0.1)**	**-**	**(0.1)**	0.6	(1.0)	(0.4)	0.4	-	0.4
		28.2	**(119.5)**	**(91.3)**	32.4	(62.6)	(30.2)	77.4	(286.6)	(209.2)
Earnings per share										
Basic earnings/(loss) per share										
From continuing operations	8	**15.0p**	**(37.1)p**	**(22.1)p**	21.4p	(59.8)p	(38.4)p	30.9p	(177.8)p	(146.9)p
From discontinued operations	8	**2.5p**	**(36.8)p**	**(34.3)p**	9.5p	-	9.5p	27.4p	(39.0)p	(11.6)p
Total		**17.5p**	**(73.9)p**	**(56.4)p**	30.9p	(59.8)p	(28.9)p	58.3p	(216.8)p	(158.5)p
Diluted earnings/(loss) per share										
From continuing operations	8	**15.0p**	**(37.1)p**	**(22.1)p**	21.4p	(59.8)p	(38.4)p	30.9p	(177.8)p	(146.9)p
From discontinued operations	8	**2.5p**	**(36.8)p**	**(34.3)p**	9.5p	-	9.5p	27.4p	(39.0)p	(11.6)p
Total		**17.5p**	**(73.9)p**	**(56.4)p**	30.9p	(59.8)p	(28.9)p	58.3p	(216.8)p	(158.5)p

[1] Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see note 1.
[2] Comparative information for profit before exceptional items and exceptional items has been re-presented to reflect the change in the Group's Alternative Performance Measure, see note 1. This has had no impact on the statutory reported results for the period ended 31 December 2018.
[3] Comparative information has been re-presented to classify the Living division as a discontinued operation, see note 9. This has had no impact on the statutory reported results for the period ended 31 December 2018 or year ended 30 June 2019.

Consolidated statement of comprehensive income

For the six months ended 31 December 2019

	Notes	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 Restated[1] £m	Year to 30 June 2019 Restated[1] £m
Loss for the period		**(91.3)**	(30.2)	(209.2)
Items that may be reclassified subsequently to the income statement				
Share of joint venture fair value movements on cash flow hedging instruments		**-**	-	0.2
Fair value (loss)/gain on cash flow hedging instruments		**(6.6)**	6.5	8.6
Fair value movements on cash flow hedging instruments recycled to the income statement		**6.1**	(4.3)	(4.3)
Deferred tax charge on fair value movements on cash flow hedging instruments		**0.1**	(0.4)	(0.7)
Foreign exchange (loss)/gain on long-term funding of foreign operations		**(0.1)**	4.6	0.9
Foreign exchange translation differences		**(2.0)**	(3.1)	-
Foreign exchange movements recycled to the income statement		**(0.2)**	(0.6)	(0.7)
Total items that may be reclassified subsequently to the income statement		**(2.7)**	2.7	4.0
Items that will not be reclassified to the income statement				
Re-measurement of defined benefit liabilities	5	**(29.0)**	(30.2)	(22.9)
Deferred tax credit on actuarial losses on defined benefit liabilities		**5.0**	5.1	3.9
Total items that will not be reclassified to the income statement		**(24.0)**	(25.1)	(19.0)
Other comprehensive loss for the period		**(26.7)**	(22.4)	(15.0)
Total comprehensive loss for the period		**(118.0)**	(52.6)	(224.2)
Attributable to:				
Equity holders of the parent		**(117.9)**	(52.2)	(224.6)
Non-controlling interests – continuing operations		**(0.1)**	(0.4)	0.4
		(118.0)	(52.6)	(224.2)
Total comprehensive loss attributable to equity shareholders arises from:				
Continuing operations		**(62.4)**	(62.0)	(209.2)
Discontinued operations		**(55.5)**	9.8	(15.4)
		(117.9)	(52.2)	(224.6)

[1] Comparative information has been re-presented to classify the Living division as a discontinued operation, see note 9. This has had no impact on the statutory report results for the period ended 31 December 2018 or year ended 30 June 2019.

Consolidated statement of changes in equity

For the six months ended 31 December 2019

	Notes	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 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[1]	1	-	-	-	(60.8)	-	0.2	-	(60.6)	-	(60.6)
At 1 July 2018		1.0	435.0	2.7	(33.2)	(5.0)	3.5	134.8	538.8	1.7	540.5
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	7	-	-	-	(44.7)	-	-	-	(44.7)	(1.6)	(46.3)
Issue of own shares		0.6	249.3	-	-	-	-	-	249.9	-	249.9
Share-based payments	12	-	-	-	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	(128.2)	(3.2)	4.4	134.8	696.4	(0.3)	696.1
(Loss)/profit for the period		-	-	-	(179.8)	-	-	-	(179.8)	0.8	(179.0)
Other comprehensive income/(loss)		-	-	-	6.1	2.0	(0.7)	-	7.4	-	7.4
Dividends paid	7	-	-	-	(7.9)	-	-	-	(7.9)	-	(7.9)
Share-based payments	12	-	-	-	2.1	-	-	-	2.1	-	2.1
Sale of own shares		-	-	-	0.9	-	-	-	0.9	-	0.9
At 30 June 2019		1.6	684.3	2.7	(306.8)	(1.2)	3.7	134.8	519.1	0.5	519.6
Impact of adopting IFRS 16	17	-	-	-	(16.6)	-	-	-	(16.6)	-	(16.6)
At 1 July 2019		**1.6**	**684.3**	**2.7**	**(323.4)**	**(1.2)**	**3.7**	**134.8**	**502.5**	**0.5**	**503.0**
Loss for the period		-	-	-	(91.2)	-	-	-	**(91.2)**	(0.1)	**(91.3)**
Other comprehensive (loss)/income		-	-	-	(24.0)	(0.4)	(2.3)	-	**(26.7)**	-	**(26.7)**
Share-based payments	12	-	-	-	2.2	-	-	-	**2.2**	-	**2.2**
Purchase of own shares		-	-	-	(0.9)	-	-	-	**(0.9)**	-	**(0.9)**
At 31 December 2019		**1.6**	**684.3**	**2.7**	**(437.3)**	**(1.6)**	**1.4**	**134.8**	**385.9**	**0.4**	**386.3**

[1] Opening reserves impact of adopting IFRS15 adjusted from expected position reported in 31 December 2018 interim results to final position reported in 30 June 2019 results, see note 1.

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 2019

	Notes	**Unaudited 31 December 2019 £m**	Unaudited 31 December 2018 Restated[1] £m	30 June 2019 £m
Non-current assets				
Intangible assets	14	**741.5**	829.9	766.7
Property, plant and equipment		**53.3**	83.7	57.3
Right-of-use assets	17	**149.6**	-	-
Investments in and loans to joint ventures		**116.8**	238.3	237.9
Capitalised mobilisation costs		**2.2**	2.9	3.3
Deferred tax assets		**58.7**	14.0	47.7
Contract assets		**21.7**	21.2	25.2
Trade and other receivables		**34.3**	15.6	29.0
Retirement benefit assets	5	**55.2**	33.4	58.4
Other financial assets		**17.5**	20.6	22.1
Non-current assets		**1,250.8**	1,259.6	1,247.6
Current assets				
Inventories		**54.7**	286.5	217.9
Contract assets		**359.5**	444.6	466.0
Trade and other receivables		**357.6**	466.5	372.9
Corporation tax receivable		**10.3**	11.4	9.1
Other financial assets		**-**	1.1	2.0
Cash and cash equivalents	10	**390.8**	434.0	311.7
Current assets		**1,172.9**	1,644.1	1,379.6
Assets held for sale as part of a disposal group	9	**234.0**	12.0	14.6
Total assets		**2,657.7**	2,915.7	2,641.8
Current liabilities				
Borrowings	10	**(0.3)**	(49.7)	(30.3)
Finance lease obligations	17	-	(2.3)	(1.1)
Lease liabilities	17	**(26.5)**	-	-
Trade and other payables	11	**(1,052.7)**	(1,271.7)	(1,311.0)
Contract liabilities		**(134.4)**	(127.3)	(134.0)
Provisions		**(24.4)**	(17.8)	(25.0)
Current liabilities		**(1,238.3)**	(1,468.8)	(1,501.4)
Liabilities held for sale as part of a disposal group	9	**(106.0)**	-	(1.5)
Non-current liabilities				
Borrowings	10	**(651.8)**	(589.4)	(473.6)
Finance lease obligations		-	(2.1)	(2.0)
Lease liabilities	17	**(149.6)**	-	-
Trade and other payables		**(26.0)**	(34.3)	(39.5)
Retirement benefit obligations	5	**(52.3)**	(49.9)	(38.9)
Provisions		**(47.4)**	(75.1)	(65.3)
Non-current liabilities		**(927.1)**	(750.8)	(619.3)
Total liabilities		**(2,271.4)**	(2,219.6)	(2,122.2)
Net assets	2	**386.3**	696.1	519.6
Equity				
Share capital		**1.6**	1.6	1.6
Share premium		**684.3**	684.3	684.3
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**(437.3)**	(128.2)	(306.8)
Cash flow hedge reserve		**(1.6)**	(3.2)	(1.2)
Translation reserve		**1.4**	4.4	3.7
Merger reserve		**134.8**	134.8	134.8
Equity attributable to owners of the parent		**385.9**	696.4	519.1
Non-controlling interests		**0.4**	(0.3)	0.5
Total equity		**386.3**	696.1	519.6

[1] 31 December 2018 balance sheet reclassed to move £20.6m of 'Other financial assets' from current assets to non-current assets to reflect the maturity date of the derivative instruments and opening reserves impact of adopting IFRS15 from unaudited position reported in 31 December 2018 interim results to final position reported in 30 June 2019 final results, see note 1.

Consolidated cash flow statement

For the six months ended 31 December 2019

	Notes	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 £m
Cash flow from operating activities				
Loss before tax – continuing operations		**(41.2)**	(45.3)	(229.5)
(Loss)/profit before tax – discontinued operations		**(54.5)**	9.8	(15.4)
Exceptional items excluding impairment, amortisation and finance costs	3	**59.3**	62.5	268.8
Net finance cost		**16.8**	14.6	28.2
Share of post-tax trading results of joint ventures		**(16.2)**	(14.2)	(30.7)
Normal cash contributions to pension fund in excess of pension charge		**0.1**	0.2	0.3
Equity settled share-based payments charge		**2.2**	5.1	7.2
Amortisation of intangible assets less negative goodwill recognised	14	**15.3**	25.1	38.7
Impairment of goodwill, intangible assets, assets held for sale, and property, plant and equipment		**59.5**	-	47.8
Research and development expenditure credit		**(3.0)**	(3.3)	(7.8)
Depreciation charges		**4.7**	7.1	15.5
Depreciation of right of use assets		**18.1**	-	-
Loss on disposal of joint ventures and subsidiaries		**0.1**	-	0.4
Loss/(profit) on disposal of property, plant and equipment and intangible assets		**4.0**	1.4	(0.2)
Operating cash inflows before movements in working capital		**65.2**	63.0	123.3
Deficit contributions to pension fund		**(12.2)**	(11.9)	(24.2)
Decrease/(increase) in inventories		**25.5**	(35.7)	8.8
(Increase)/decrease in receivables		**(30.5)**	(15.6)	94.1
Decrease/(increase) in contract assets		**107.6**	(50.1)	(97.2)
Decrease in payables		**(187.7)**	(48.9)	(103.8)
Increase/(decrease) in contract liabilities		**2.6**	(68.1)	(61.4)
Decrease in provisions		**(8.1)**	(1.8)	(3.2)
Cash outflow from operating activities before exceptional items		**(37.6)**	(169.1)	(63.6)
Cash outflow from operating activities (exceptional items)	3	**(35.4)**	(13.3)	(60.8)
Cash outflow from operating activities		**(73.0)**	(182.4)	(124.4)
Dividends received from joint ventures		**25.2**	25.1	31.4
Interest received		**0.3**	1.0	0.2
Income tax received		**4.9**	11.1	10.1
Net cash outflow from operating activities		**(42.6)**	(145.2)	(82.7)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**0.5**	-	-
Proceeds from sale of subsidiaries and joint ventures, net of cash disposed	13	**14.1**	12.0	18.7
Purchase of property, plant and equipment		**(0.9)**	(5.5)	(11.6)
Purchase of intangible assets	14	**(2.3)**	(11.2)	(19.8)
Purchase of capitalised mobilisation costs		**-**	(1.8)	(0.9)
Acquisition of subsidiaries, net of cash acquired		**-**	-	(29.0)
Investment in joint ventures		**(9.5)**	(35.2)	(52.0)
Classification from assets held for sale		**-**	(2.1)	(2.2)
Net cash from/(used) in investing activities		**1.9**	(43.8)	(96.8)
Cash flows from financing activities				
Issue of shares		**-**	255.5	249.9
(Purchase)/sale of own shares		**(0.9)**	(0.5)	0.4
Interest paid		**(16.2)**	(12.1)	(24.3)
Principal elements of lease payments (December 2018 & June 2019: Finance lease repayments)		**(19.7)**	(2.7)	(4.5)
Drawdown of borrowings		**184.1**	96.7	-
Repayment of borrowings		**(30.0)**	-	(39.2)
Loan repayment from joint ventures		**4.7**	-	31.3
Dividends paid to equity holders of the parent	7	**-**	(44.7)	(52.6)
Dividends paid to non-controlling interests		**-**	(1.6)	(1.6)
Net cash from financing activities		**122.0**	290.6	159.4
Increase/(decrease) in cash, cash equivalents and overdraft		**81.3**	101.6	(20.1)
Effect of change in foreign exchange rates		**(2.2)**	1.5	0.9
Opening cash, cash equivalents and overdraft		**311.7**	330.9	330.9
Closing cash, cash equivalents and overdraft	10	**390.8**	434.0	311.7

1 Accounting policies

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 interim consolidated financial statements (interim financial statements) for the six months ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

Basis of preparation

The financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, and the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union but do not comply with the full disclosure requirements of these standards.

The unaudited financial information contained in this announcement does not constitute the Company's statutory accounts as at and for the six months ended 31 December 2019. Statutory financial statements for the year ended 30 June 2019 were approved by the Board of Directors on 26 September 2019 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.

The directors continue to adopt the going concern basis in preparing the Group's interim financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Infrastructure, Utilities and Highways; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£60m from FY21; and to embed a culture of performance excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 5 March 2020, the Group is continuing its disposal of Kier Living and has taken cost reduction actions to realise annualised benefits above its original FY21 target. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 31 December 2019, the Group had £892m of unsecured committed facilities and £20m of uncommitted overdrafts.

Kier Group plc, in partnership with a number of its banks, makes early invoice discounting programmes available to selected suppliers. At 31 December 2019, £157m was drawn against these uncommitted facilities.

The directors have reviewed the Group's cash flow forecasts to 30 June 2021, which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans and delivery of the business disposal programme. This stress-testing also considered a combination of the individual downside profit and cashflow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. The Group's Brexit Task Force is focused on responding to emerging Government pronouncements as Brexit negotiations unfold. To date, this has looked closely in particular at the UK points-based immigration strategy announced. Work has been undertaken to understand the Group's exposure and to communicate with its existing EEA workforce, in order to encourage and support applications under the EU Settlement Scheme to secure the right to remain. The Group is also working closely with its supply chain to understand their level of preparedness.

The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

As a responsible business, the health and welfare of our people is paramount. We are closely monitoring and following Government advice in relation to COVID-19 and have provided our employees with guidance and precautions to follow. We are ready to implement business continuity plans if necessary. This issue is owned at Group level and has been escalated to, and considered by, the ExCo Group Risk Committee.

As a result, the directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing these interim financial statements.

Notes to the financial statements
Continued

1 Accounting policies continued

Significant accounting policies

Except for IFRS 16 and IFRIC 23 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 2019.

The Group has applied IFRS 16 'Leases' effective for the year ended 30 June 2020. The standard has been applied retrospectively at 1 July 2019 by adjusting the opening balance sheet at that date. Comparative periods have not been restated. Further details on the transitional impact on adoption of these standards is described in note 17.

IFRIC 23 'Uncertainty over income tax treatments' is also effective for the first time for the year ended 30 June 2020. IFRIC 23 clarifies the accounting for uncertainties in income taxes. The new accounting guidance has not caused the Group to make any adjustment to its tax balances on adoption, i.e. the Group has not recognised any new or derecognised any existing tax balances as a result of IFRIC 23.

The Group has considered the impact of IBOR reform on its hedge accounting. The Group has elected to early adopt amendments to IAS 39, IFRS 9, and IFRS 7 'Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The adoption of these amendments has not had a material impact on these financial statements.

The Group adopted IFRS 15 'Revenue from Contracts with Customers' for the year ended 30 June 2019. The impact of adopting the standard has been taken to reserves on the date of initial application (1 July 2018). In the interim financial statements for the period ended 31 December 2018, the debit adjustment to reserves was £43.1m (net of the associated tax effect). However, following a subsequent in-depth review of the accounting treatment within the Group's Highways services contracts, additional transition adjustments relating to mobilisation costs and timing differences resulting from the change to percentage of completion were identified. As a result, in the financial statements for the year ended 30 June 2019, the debit adjustment was increased by £17.5m to £60.6m. The prior year comparative information has been updated to reflect this increase.

A reconciliation from the reported balance sheet as at 31 December 2018 included in the interim financial statements to the revised comparative amounts is as follows:

	Previously reported £m	IFRS15 transition adjustment £m	**Total[1] £m**
Non-current assets			
Capitalised mobilisation costs	8.6	(5.7)	**2.9**
Deferred tax assets	13.4	0.6	**14.0**
Other	1,222.1	-	**1,222.1**
Non-current assets	1,244.1	(5.1)	**1,239.0**
Current assets			
Contract assets	456.5	(11.9)	**444.6**
Corporation tax receivable	8.5	2.9	**11.4**
Other	1,208.7	-	**1,208.7**
Current assets	1,673.7	(9.0)	**1,664.7**
Assets held as part of a disposal group	12.0	-	**12.0**
Total assets	2,929.8	(14.1)	**2,915.7**
Current liabilities			
Trade and other payables	(1,270.3)	(1.4)	**(1,271.7)**
Contract liabilities	(125.3)	(2.0)	**(127.3)**
Other	(69.8)	-	**(69.8)**
Current liabilities	(1,465.4)	(3.4)	**(1,468.8)**
Non-current liabilities	(750.8)	-	**(750.8)**
Total liabilities	(2,216.2)	(3.4)	**(2,219.6)**
Net assets	713.6	(17.5)	**696.1**

[1] In addition, 31 December 2018 balance sheet reclassed to move £20.6m of 'Other financial assets' from current assets to non-current assets to reflect the maturity date of the derivative instruments.

Notes to the financial statements
Continued

1 Accounting policies continued

Segmental reporting

From 1 July 2019, the Group changed its reporting format to focus on two market positions of 'Infrastructure Services' and 'Construction'. This is the basis on which the Group reports its primary segmental information for the six months ended 31 December 2019. The Group is simplifying its portfolio by selling or substantially exiting the following activities which are deemed to be 'non-core' and are now presented as 'Other': Property, Facilities Management and Environmental Services. '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 2019 to each of the Group's new CGUs as follows:

	£m
Infrastructure Services	516.3
Construction	20.4
Other	-
	536.7

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

Exceptional items and amortisation of acquired intangible assets

In the financial statements for the year ended 30 June 2019, the Directors reviewed the previous accounting presentation for disclosed non-underlying items. As part of this review, the Directors changed the Group's Alternative Performance Measure to 'Profit before exceptional items and amortisation of acquired intangible assets' to improve the transparency and clarity of the Group's financial performance.

Items which are significant by virtue of their size and/or nature are now presented as exceptional items within their relevant consolidated income statement category and detailed separately in note 3.

Exceptional items are items of financial performance which the Group believes should be separately identified on the face of the Income Statement to provide additional useful information and to assist in understanding the financial performance achieved by the Group and are highlighted separately in the notes to the consolidated financial statements.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the period and the extent to which results are influenced by material unusual and/or non-recurring items.

The Directors exercise judgement in determining the classification of certain items as exceptional using quantitative and qualitative factors. In assessing whether an item is exceptional, the Directors give consideration, both individually and collectively, as to whether the item is unusual by virtue of its size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items. No single criteria alone classifies an item as exceptional and management must therefore exercise judgement as to whether, on balance, classifying as such will help users of the financial statements understand the Group's business performance.
Amortisation of acquired intangible assets and the associated unwinding of discounts including within finance costs are also included alongside exceptional items on the basis of being ongoing non-cash items generated from acquisition related activity.

As a result of the Group's change in its Alternative Performance Measure, a review of the comparative period has been conducted to align to the revised presentation. A charge of £3.7m in relation to the Mersey Gateway project within the Infrastructure division has been identified as meeting the revised exceptional classification. The results for the six months ended 31 December 2018 have been re-presented accordingly. The results from the Mining operations, which were previously disclosed as non-underlying, do not meet the definition for exceptional items and therefore have been re-presented within profit before exceptional items. The loss from the Mining operations for the six months ended 31 December 2019 was £0.3m (31 December 2018: £0.9m, 30 June 2019: £4.3m).

1 Accounting policies continued

A reconciliation from the reported results in the 31 December 2018 interim financial statements to the revised comparative amounts is as follows:

	Previously reported underlying £m	Mining £m	Mersey Gateway £m	**Profit before exceptional items[1] £m**	Previously reported non-underlying £m	Mining £m	Mersey Gateway £m	**Exceptional items[1] £m**
Revenue								
Group and share of joint ventures	2,201.5	2.3	-	**2,203.8**	(12.7)	(2.3)	-	**(15.0)**
Less share of joint ventures	(124.1)	-	-	**(124.1)**	-	-	-	**-**
Group revenue	2,077.4	2.3	-	**2,079.7**	(12.7)	(2.3)	-	**(15.0)**
Cost of sales	(1,857.7)	(3.2)	3.7	**(1,857.2)**	(39.3)	3.2	(3.7)	**(39.8)**
Gross profit/(loss)	219.7	(0.9)	3.7	**222.5**	(52.0)	0.9	(3.7)	**(54.8)**
Administrative expenses	(182.1)	(1.1)	-	**(183.2)**	(19.9)	1.1	-	**(18.8)**
Share of post-tax results of joint ventures	14.2	-	-	**14.2**	-	-	-	**-**
Loss on disposal of joint ventures and subsidiaries	-	-	-	**-**	(0.8)	-	-	**(0.8)**
Profit/(loss) from operations	51.8	(2.0)	3.7	**53.5**	(72.7)	2.0	(3.7)	**(74.4)**
Finance income	1.0	-	-	**1.0**	-	-	-	**-**
Finance cost	(13.8)	(0.7)	-	**(14.5)**	(1.8)	0.7	-	**(1.1)**
Profit/(loss) before tax	39.0	(2.7)	3.7	**40.0**	(74.5)	2.7	(3.7)	**(75.5)**
Taxation	(7.6)	-	-	**(7.6)**	12.9	-	-	**12.9**
Profit/(loss) for the year from continuing operations	31.4	(2.7)	3.7	**32.4**	(61.6)	2.7	(3.7)	**(62.6)**

[1] In addition, the 31 December 2018 results have been restated to present the results of Kier Living as discontinued – see note 9b.

There has been no impact to the statutory report results for the period ended 31 December 2018.

2 Segmental reporting

For the six months ended 31 December 2019 **Continuing operations**	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	783.2	844.0	233.3	5.5	**1,866.0**
Less share of joint ventures	-	-	(46.8)	-	**(46.8)**
Group revenue	**783.2**	**844.0**	**186.5**	**5.5**	**1,819.2**
Profit					
Group operating profit/(loss)	27.6	28.8	(1.1)	(14.0)	**41.3**
Share of post-tax results of joint ventures	-	-	5.5	-	**5.5**
Loss on disposal of joint ventures	-	-	(0.1)	-	**(0.1)**
Operating profit before exceptional items	**27.6**	**28.8**	**4.3**	**(14.0)**	**46.7**
Net finance (costs)/income before exceptional items[2]	(1.1)	1.8	(8.9)	(7.8)	**(16.0)**
Profit/(loss) before tax and exceptional items	**26.5**	**30.6**	**(4.6)**	**(21.8)**	**30.7**
Exceptional items and amortisation of acquired intangible assets					
Amortisation of acquired intangible assets relating to contract rights	(1.8)	-	-	(10.0)	**(11.8)**
Net finance costs	-	-	(0.8)	-	**(0.8)**
Other exceptional items	(6.3)	(13.6)	(2.0)	(37.4)	**(59.3)**
Profit/(loss) before tax from continuing operations	**18.4**	**17.0**	**(7.4)**	**(69.2)**	**(41.2)**
Taxation					**5.4**
Loss for the period from continuing operations					**(35.8)**
Loss for the period from discontinued operations					**(55.5)**
Loss for the period					**(91.3)**
Balance sheet					
Operating assets[3]	977.1	490.9	320.7	226.7	**2,015.4**
Operating liabilities[3]	(383.2)	(694.7)	(189.8)	(245.6)	**(1,513.3)**
Net operating assets/(liabilities)[3]	**593.9**	**(203.8)**	**130.9**	**(18.9)**	**502.1**
Cash, cash equivalents and borrowings	265.2	377.2	(379.9)	(523.8)	**(261.3)**
Net financial assets	-	-	-	17.5	**17.5**
Net assets/(liabilities) excluding net assets held for sale	**859.1**	**173.4**	**(249.0)**	**(525.2)**	**258.3**
Net assets held for sale					**128.0**
Net assets/(liabilities)					**386.3**

Notes to the financial statements
Continued

2 Segmental reporting continued

For the six months ended 31 December 2018[4] **Continuing operations**	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	870.7	909.3	273.3	-	**2,053.3**
Less share of joint ventures	-	-	(55.1)	-	**(55.1)**
Group revenue	**870.7**	**909.3**	**218.2**	**-**	**1,998.2**
Profit					
Group operating profit/(loss)	40.3	36.4	(7.0)	(35.0)	**34.7**
Share of post-tax results of joint ventures	-	-	7.2	-	**7.2**
Operating profit/(loss) before exceptional items	**40.3**	**36.4**	**0.2**	**(35.0)**	**41.9**
Net finance (costs)/income before exceptional items[2]	(0.7)	4.1	(8.8)	(6.3)	**(11.7)**
Profit/(loss) before tax and exceptional items	**39.6**	**40.5**	**(8.6)**	**(41.3)**	**30.2**
Exceptional items and amortisation of acquired intangible assets					
Revenue	-	(15.0)	-	-	**(15.0)**
Amortisation of acquired intangible assets relating to contract rights	(0.2)	(0.4)	(2.3)	(9.9)	**(12.8)**
Net finance costs	(0.3)	-	(0.8)	-	**(1.1)**
Other exceptional items	(6.4)	(10.0)	(25.5)	(4.7)	**(46.6)**
Profit/(loss) before tax from continuing operations	**32.7**	**15.1**	**(37.2)**	**(55.9)**	**(45.3)**
Taxation					**5.3**
Loss for the period from continuing operations					**(40.0)**
Profit for the period from discontinued operations					**9.8**
Loss for the period					**(30.2)**
Balance sheet					
Operating assets[3]	1,062.6	497.8	766.3	121.3	**2,448.0**
Operating liabilities[3]	(377.3)	(707.0)	(363.9)	(132.3)	**(1,580.5)**
Net operating assets/(liabilities)[3]	**685.3**	**(209.2)**	**402.4**	**(11.0)**	**867.5**
Cash, cash equivalents and borrowings	204.7	307.9	(500.0)	(217.7)	**(205.1)**
Net financial assets	-	-	-	21.7	**21.7**
Net assets/(liabilities) excluding net assets held for sale	**890.0**	**98.7**	**(97.6)**	**(207.0)**	**684.1**
Net assets held for sale					**12.0**
Net assets/(liabilities)					**696.1**

2 Segmental reporting continued

For the year ended 30 June 2019[4] **Continuing operations**	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,669.1	1,864.3	584.7	2.9	**4,121.0**
Less share of joint ventures	-	-	(154.9)	-	**(154.9)**
Group revenue	**1,669.1**	**1,864.3**	**429.8**	**2.9**	**3,966.1**
Profit					
Group operating profit/(loss)	53.3	67.2	2.2	(47.1)	**75.6**
Share of post-tax results of joint ventures	-	-	10.1	-	**10.1**
Operating profit/(loss) before exceptional items	**53.3**	**67.2**	**12.3**	**(47.1)**	**85.7**
Net finance (costs)/income before exceptional items[2]	(1.4)	6.9	(18.6)	(11.2)	**(24.3)**
Profit/(loss) before tax and exceptional items	**51.9**	**74.1**	**(6.3)**	**(58.3)**	**61.4**
Exceptional items and amortisation of acquired intangible assets					
Revenue	-	(15.0)	-	-	**(15.0)**
Amortisation of acquired intangible assets relating to contract rights	(0.3)	(0.6)	(3.3)	(20.6)	**(24.8)**
Net finance costs	-	-	(1.1)	(0.6)	**(1.7)**
Other exceptional items	(56.3)	(28.5)	(75.3)	(89.3)	**(249.4)**
(Loss)/profit before tax from continuing operations	**(4.7)**	**30.0**	**(86.0)**	**(168.8)**	**(229.5)**
Taxation					**35.7**
Loss for the period from continuing operations					**(193.8)**
Loss for the period from discontinued operations					**(15.4)**
Loss for the period					**(209.2)**
Balance sheet					
Operating assets[3]	1,033.5	507.7	614.7	135.5	**2,291.4**
Operating liabilities[3]	(403.1)	(749.2)	(314.4)	(150.1)	**(1,616.8)**
Net operating assets/(liabilities)[3]	**630.4**	**(241.5)**	**300.3**	**(14.6)**	**674.6**
Cash, cash equivalents and borrowings	267.4	362.2	(372.7)	(449.1)	**(192.2)**
Net financial assets	-	-	-	24.1	**24.1**
Net assets/(liabilities) excluding net assets held for sale	**897.8**	**120.7**	**(72.4)**	**(439.6)**	**506.5**
Net assets held for sale					**13.1**
Net assets/(liabilities)					**519.6**

[1] Revenue is stated after the exclusion of inter-segmental revenue and before exceptional items. Over 90% of the Group's revenue is derived from UK based customers.

[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] Prior year comparative information re-presented to show the new reporting segments focused on the Group's two market positions of Infrastructure Services and Construction, see note 1.

3 Exceptional items

The Directors consider that alternative performance measures referred to in these results provide useful information for readers of the accounts on the Group's financial performance. The adjustments made to statutory loss/profit are to exclude exceptional items, which are significant in size and/or nature and meet the criteria as set out in note 1, and the amortisation of acquired intangible assets.

Loss before taxation is stated after (charging)/crediting exceptional items and amortisation of acquired intangible assets:

Continuing operations	Amortisation of acquired intangible assets £m	Costs associated with previous acquisitions £m	Restructuring charges £m	Preparation for business divestment or closure £m	Exceptional contract losses £m	Discontinued operations £m	Other £m	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018[1, 2] £m	Year to 30 June 2019 Total[2] £m
Revenue										
Group and share of joint ventures	-	-	-	-	-	-	-	**-**	(15.0)	(15.0)
Less share of joint ventures	-	-	-	-	-	-	-	**-**	-	-
Group revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(15.0)	(15.0)
Cost of sales	-	-	-	-	-	-	-	**-**	(39.8)	(61.2)
Gross profit/(loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(54.8)	(76.2)
Administrative expenses	(11.8)	(3.1)	(48.8)	(7.4)	-	-	-	**(71.1)**	(18.8)	(212.6)
Loss on disposal of joint ventures and subsidiaries	-	-	-	-	-	-	-	**-**	(0.8)	(0.4)
Profit/(loss) from operations	**(11.8)**	**(3.1)**	**(48.8)**	**(7.4)**	**-**	**-**	**-**	**(71.1)**	(74.4)	(289.2)
Net finance charges	-	-	-	-	-	-	(0.8)	**(0.8)**	(1.1)	(1.7)
Profit/(loss) before tax	**(11.8)**	**(3.1)**	**(48.8)**	**(7.4)**	**-**	**-**	**(0.8)**	**(71.9)**	(75.5)	(290.9)
Associated tax credit	2.0	0.5	8.1	1.2	-	-	0.1	**11.9**	12.9	55.9
Loss from discontinued operations	-	-	-	-	-	(59.5)	-	**(59.5)**	-	(51.6)
Charged against profit for the year	**(9.8)**	**(2.6)**	**(40.7)**	**(6.2)**	**-**	**(59.5)**	**(0.7)**	**(119.5)**	(62.6)	(286.6)

[1] Comparative information of exceptional items has been re-presented to reflect the change in the Group's Alternative Performance Measure, see note 1.
[2] Comparative information has been re-presented to classify the Living division as a discontinued operation, see note 9.

a) Amortisation of acquired intangible assets

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Amortisation of intangible assets and deferred consideration	**(11.8)**	(12.8)	(24.8)

b) Costs associated with previous acquisitions

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
McNicholas acquired contract provision and exit costs[1]	**(3.8)**	-	(21.5)
McNicholas acquired contract settlement[2]	**3.5**	-	-
Integration costs relating to the McNicholas acquisition[3]	**(2.8)**	(5.4)	(11.8)
Release of deferred and contingent consideration[4]	**-**	5.5	4.0
Total before tax	**(3.1)**	0.1	(29.3)

[1] Provision to WIP and exit costs in relation to a contract acquired with McNicholas in respect of a major customer. The charge is considered to be exceptional on the basis of its size and the fact that these assets were acquired, as a result of which the associated income has never been recorded by the Group.
[2] Revenue received in settlement of a contract acquired with McNicholas.
[3] Costs incurred to integrate the McNicholas acquisition into the Utilities business including significant double-running of people and lease costs. These are considered to be exceptional on the basis of their size, the fact that they relate to a major acquisition and that these are non-recurring costs and are due to be completed in FY20.
[4] The Group released contingent consideration in FY19 relating to the McNicholas acquisition which is not payable.

3 Exceptional items continued

c) Restructuring charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's cost saving programmes and, latterly, the Group's Strategic Review programme announced following the appointment of Andrew Davies as CEO. These are discussed further in the Financial Review. These are considered to be exceptional on the basis of their size and the fact that they relate to significant changes to the Group's activities or workforce.

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Redundancy costs[1]	**(16.8)**	-	(38.4)
Professional advisor fees and other costs incurred implementing non-people initiatives[2]	**(18.1)**	-	(13.3)
Lease impairments (June 2019: onerous lease)[3]	**(10.1)**	-	(4.4)
Costs in preparation for outsourcing arrangements[4]	**(3.8)**	-	-
Total before tax	**(48.8)**	-	(56.1)

[1] Costs in respect of roles made redundant as a result of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the strategic review.
[2] The Group incurred various costs in running the restructuring activities during the year. These included the professional advisor fees, incremental costs of teams involved in the management of the restructuring activities and costs incurred implementing non-people initiatives.
[3] The Group has incurred impairment charges on a corporate office lease of £13.6m, which is being exited as part of the cost saving programme. Another corporate office lease will be utilised instead, this was previously impaired (FY19: onerous rent). The lease impairment on this office was released in HY20 by £3.5m.
[4] The Group is currently engaged in reviewing its central activities. As a result, one off costs have been incurred in preparation for activities to be outsourced to external providers for Fleet and IT.

d) Costs incurred in the disposal of operations or in preparation for business divestment or closure

The Group has incurred various charges driven by the change in strategic direction of the Group and the decision to exit certain divisions deemed non-core to its ongoing operations. Most of these charges are non-cash and are considered to be exceptional on the basis that they relate to a major restructuring of the Group following the Strategic Review that took place in 2019.

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Impairment of D&H goodwill and other assets[1]	**-**	-	(47.8)
Environmental Waste contract termination provision[2]	**-**	(26.0)	(26.8)
Closure costs relating to non-core businesses[3]	**(2.9)**	-	(23.1)
Impairment of ERP computer software[4]	**(2.4)**	-	(7.3)
Fair value impairment of Pure Recycling Warwick Limited - note 9	**(2.1)**	-	(8.4)
Loss on disposal of subsidiaries, joint-ventures and other assets, with associated fees[5]	**-**	(0.9)	(7.0)
Total before tax	**(7.4)**	(26.9)	(120.4)

[1] A non-cash impairment of goodwill (£8.0m) and other assets (£39.8m) was made in FY19 to the Group's previous Developments & Housing CGU, following the decision to dispose of various non-core divisions. See note 14 for the goodwill and other intangible impairments.
[2] In securing the termination of its largest loss-making environmental waste contract, the Group has agreed to pay the local authority £27.3m over a period of six years. The Group agreed to this payment to help it exit the Environmental business by reducing a significant future central overhead that would have otherwise still been needed to service the loss-making contract.
[3] Following the announcement of the Group's intention to exit parts of the Group, a number of charges were recognised in FY19. These include costs incurred in exiting contracts (£9.6m) and onerous contract charges (£3.6m). In addition, an impairment of software (£5.5m) was incurred as a result of the decision to abandon some functionality of certain assets following the announcement of the intention to exit the division. A further £2.9m has been incurred in Facilities Management and Kier Business Services during the period in relation to closure activities.
[4] A cost of £7.3m was written-off in FY19 due to software functionality which will no longer be utilised within the Group. A further £2.4m of software was written off in HY20.
[5] Comprises advisers fees associated with divestments along with the loss on disposal of Unity (£1.9m), gain on the disposal of the Group's pension administration business (£2.5m) and loss on disposal of KHSA Limited (£1.4m).

e) Exceptional contract losses

The charges in relation to Broadmoor and Mersey Gateway have been classified as an exceptional item on the basis of the highly material size of the charges incurred in the current and prior years. In the view of the Directors, both of these contract losses are also considered exceptional on the basis that they arose from contractual arrangements that would not typically be agreed to by the respective businesses.

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Broadmoor Hospital[1]	**-**	(25.0)	(43.5)
Mersey Gateway[2]	**-**	(3.7)	(6.4)
Total before tax	**-**	(28.7)	(49.9)

[1] The Group incurred significant losses in FY19 relating to the Broadmoor Hospital development project in respect of future recoveries of costs from the client and other third parties.
[2] The Group incurred significant charges in FY19 in relation to the completion of the Mersey Gateway project.

Notes to the financial statements
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3 Exceptional items continued

f) Discontinued operations
Exceptional items within discontinued operations are analysed below:

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Fair value adjustment of Kier Living – note 9	**(59.5)**	-	-
Impairment of residential development sites[1]	**-**	-	(50.0)
Loss on disposal of assets[2]	**-**	-	(1.3)
Redundancy costs[3]	**-**	-	(0.3)
Total after tax	**(59.5)**	-	(51.6)

[1] This impairment charge was triggered in FY19 by the Group's decision to dispose of its Living division and the subsequent decision to sell certain mothballed land banks. Previously the Group had intended to develop these sites and had therefore maintained a carrying value of these assets above their market valuations at £60.0m, on a development value basis.
[2] Loss on disposal of Living's shared equity portfolio (£1.3m).
[3] Costs in respect of roles made redundant as a result of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the strategic review.

g) Other exceptional items
Other exceptional items are analysed below:

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Procurement charge[1]	**-**	-	(17.2)
Pension increase exchange pension gain (net of fees) – note 5	**-**	-	14.6
GMP Pension charge - note 5	**-**	(6.1)	(6.1)
Net financing costs[2]	**(0.8)**	(1.1)	(1.7)
Total before tax	**(0.8)**	(7.2)	(10.4)

[1] The Group incurred a material charge in FY19 in relation to certain aged receivables, driven by a management review of contractual terms following the impact of the changing credit market. This review was driven by the changing commercial landscape, as a result of which, management has determined that the assets should be written off. The charge is deemed exceptional on the basis of its size.

[2] Net financing costs relate to discount unwinding of acquired intangible assets.

4 Finance costs

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Bank interest	**(12.2)**	(12.8)	(24.7)
Interest and finance charges for lease liabilities (December 2018 and June 2019: Finance leases)	**(3.7)**	(0.1)	(0.2)
Discount unwind[1]	**(0.9)**	(1.1)	(1.9)
Pension (interest)/credit	**(0.3)**	0.2	0.6
Total	**(17.1)**	(13.8)	(26.2)

[1] £0.8m of the discount unwind relates to acquired intangible assets and is included within exceptional items and amortisation of acquired intangible assets (31 December 2018: £1.1m, 30 June 2019: £1.7m).

Notes to the financial statements

Continued

5 Retirement benefit obligations

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

	Kier Group Pension Scheme £m	May Gurney Pension Scheme £m	Mouchel Pension Schemes[1, 2] £m	McNicholas Pension Scheme £m	Unaudited 6 months to 31 December 2019 Total £m
Opening surplus/(deficit)	39.4	1.4	(14.6)	(6.7)	**19.5**
Credit/(charge) to income statement	0.5	-	(0.2)	(0.1)	**0.2**
Employer contributions	6.2	1.0	4.4	0.6	**12.2**
Actuarial losses	(4.9)	(1.3)	(22.3)	(0.5)	**(29.0)**
Closing surplus/(deficit)	**41.2**	**1.1**	**(32.7)**	**(6.7)**	**2.9**
Comprising:					
Total market value of assets	1,191.2	79.0	483.6	26.3	**1,780.1**
Present value of liabilities	(1,150.0)	(77.9)	(516.3)	(33.0)	**(1,777.2)**
Net surplus/(deficit)	**41.2**	**1.1**	**(32.7)**	**(6.7)**	**2.9**
Related deferred tax (liability)/asset	(7.0)	(0.2)	5.6	1.1	**(0.5)**
Net pension asset/(liability)	**34.2**	**0.9**	**(27.1)**	**(5.6)**	**2.4**
Presentation of net surplus/(deficit) above in the Consolidated balance sheet:					
Retirement benefit assets	41.2	1.1	12.9	-	**55.2**
Retirement benefit obligations	-	-	(45.6)	(6.7)	**(52.3)**
Net surplus/(deficit)	**41.2**	**1.1**	**(32.7)**	**(6.7)**	**2.9**

5 Retirement benefit obligations continued

The amounts recognised in the 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	May Gurney Pension Scheme £m	Mouchel Pension Schemes[1, 2] £m	McNicholas Pension Scheme £m	Total £m
Opening surplus/(deficit)	25.2	(1.1)	(8.8)	(7.4)	7.9
Charge to income statement[3]	(3.8)	(0.6)	(1.5)	(0.2)	(6.1)
Employer contributions	6.0	0.8	4.5	0.6	11.9
Actuarial losses	(5.9)	(0.1)	(23.7)	(0.5)	(30.2)
Closing surplus/(deficit)	21.5	(1.0)	(29.5)	(7.5)	(16.5)
Comprising:					
Total market value of assets	1,112.2	74.5	442.4	22.9	1,652.0
Present value of liabilities	(1,090.7)	(75.5)	(471.9)	(30.4)	(1,668.5)
Net surplus/(deficit)	21.5	(1.0)	(29.5)	(7.5)	(16.5)
Related deferred tax (liability)/asset	(3.7)	0.2	5.0	1.3	2.8
Net pension asset/(liability)	17.8	(0.8)	(24.5)	(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	-	(1.0)	(41.4)	(7.5)	(49.9)
Net surplus/(deficit)	21.5	(1.0)	(29.5)	(7.5)	(16.5)

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

Year to 30 June 2019	Kier Group Pension Scheme £m	May Gurney Pension Scheme £m	Mouchel Pension Schemes[1, 2] £m	McNicholas Pension Scheme £m	Total £m
Opening surplus/(deficit)	25.2	(1.1)	(8.8)	(7.4)	7.9
Credit/(charge) to income statement[3, 4]	11.7	(0.5)	(0.6)	(0.3)	10.3
Employer contributions	12.2	1.8	9.0	1.2	24.2
Actuarial (losses)/gains	(9.7)	1.2	(14.2)	(0.2)	(22.9)
Closing surplus/(deficit)	39.4	1.4	(14.6)	(6.7)	19.5
Comprising:					
Total market value of assets	1,189.8	81.0	492.6	26.0	1,789.4
Present value of liabilities	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)
Net surplus/(deficit)	39.4	1.4	(14.6)	(6.7)	19.5
Related deferred tax (liability)/asset	(6.7)	(0.2)	2.5	1.1	(3.3)
Net pension asset/(liability)	32.7	1.2	(12.1)	(5.6)	16.2
Presentation of net surplus/(deficit) above in the Consolidated balance sheet:					
Retirement benefit assets	39.4	1.4	17.6	-	58.4
Retirement benefit obligations	-	-	(32.2)	(6.7)	(38.9)
Net surplus/(deficit)	39.4	1.4	(14.6)	(6.7)	19.5

[1] This comprises of schemes in a net surplus and net deficit position: £12.9m surplus and £45.6m deficit at 31 December 2019 (31 December 2018: £11.9m surplus and £41.4m deficit, 30 June 2019: £17.6m surplus and £32.2m deficit).
[2] The Mouchel figures comprise four individual schemes (Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme) which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.
[3] 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 year to 30 June 2019 include an exceptional GMP charge of £6.1m.
[4] In 2019, 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 was 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. A gain of £16.1m was recognised as an exceptional gain in the year to 30 June 2019.

6 Taxation

	Unaudited 6 months to 31 December 2019			Unaudited 6 months to 31 December 2018			Year to 30 June 2019		
	Before exceptional items £m	**Exceptional items (note 3)[1] £m**	**Total £m**	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Profit/(loss) before tax	**30.7**	**(71.9)**	**(41.2)**	30.2	(75.5)	(45.3)	61.4	(290.9)	(229.5)
Add: tax on joint ventures included above	**-**	**-**	**-**	0.5	-	0.5	-	-	-
Adjusted profit/(loss) before tax	**30.7**	**(71.9)**	**(41.2)**	30.7	(75.5)	(44.8)	61.4	(290.9)	(229.5)
Current tax	**1.8**	**-**	**1.8**	-	-	-	(5.3)	-	(5.3)
Deferred tax	**(8.3)**	**11.9**	**3.6**	(4.9)	12.9	8.0	(12.5)	55.9	43.4
Overseas tax	**-**	**-**	**-**	(2.7)	-	(2.7)	(2.4)	-	(2.4)
Total income tax (expense)/credit in the income statement	**(6.5)**	**11.9**	**5.4**	(7.6)	12.9	5.3	(20.2)	55.9	35.7
Tax on joint ventures	**-**	**-**	**-**	(0.5)	-	(0.5)	-	-	-
Effective tax (charge)/credit	**(6.5)**	**11.9**	**5.4**	(8.1)	12.9	4.8	(20.2)	55.9	35.7
Effective tax rate	**21.2%**	**16.6%**	**13.1%**	26.4%	17.1%	10.7%	32.9%	19.2%	15.6%

[1] Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see note 1.

The taxation charge for the six months ended 31 December 2019 has been calculated at 21.2% (six months ended 31 December 2018: 26.4%, year ended 30 June 2019: 32.9%) of adjusted profit before tax, being profits adjusted for the Group's share in equity accounted joint ventures and excluding exceptional items and amortisation of acquired intangible assets. Exceptional items are taxed at their underlying rate.

7 Dividends

Amounts recognised as distributions to equity holders in the year:	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Final dividend for the year ended 30 June 2019 of nil (2018: 46.0 pence)	**-**	44.7	44.7
Interim dividend for the year ended 30 June 2020 of nil (2019: 4.9 pence)	**-**	-	7.9
	-	44.7	52.6

The Group's focus on cash generation and reducing net debt has required a suspension in dividend payments for the second half of FY19 and the whole of FY20.

8 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to profit and earnings per share before exceptional items and amortisation of acquired intangible assets is set out below. The adjustments are made to illustrate the impact of exceptional items and amortisation of acquired intangible assets.

	Unaudited 6 months to 31 December 2019		Unaudited 6 months to 31 December 2018 Restated[2]		Year to 30 June 2019 Total Restated[2]	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
(Loss)/earnings						
Continuing operations						
Loss (after tax and non-controlling interests), being net losses attributable to equity holders of the parent	**(35.7)**	**(35.7)**	(39.6)	(39.6)	(194.2)	(194.2)
Impact of exceptional items[1] net of tax:						
Amortisation of intangible assets - net of tax credit of £2.0m (31 December 2018: £2.1m, 30 June 2019: £4.2m)	**9.8**	**9.8**	10.7	10.7	20.5	20.5
Acquisition discount unwind - net of tax credit of £0.1m (31 December 2018: £0.3m, 30 June 2019: £0.3m)	**0.7**	**0.7**	1.5	1.5	1.4	1.4
Other exceptional items[1] - net of tax credit of £9.8m (31 December 2018: £10.5m, 30 June 2019: £51.4m)	**49.5**	**49.5**	49.4	49.4	213.1	213.1
Earnings from continuing operations before exceptional items[1]	**24.3**	**24.3**	22.0	22.0	40.8	40.8
Discontinued operations						
Earnings (after tax and non-controlling interests), being net profits attributable to equity holders of the parent	**4.0**	**4.0**	9.8	9.8	36.2	36.2
Exceptional items from discontinued operations	**(59.5)**	**(59.5)**	-	-	(51.6)	(51.6)
(Loss)/earnings from discontinued operations	**(55.5)**	**(55.5)**	9.8	9.8	(15.4)	(15.4)
	million	million	million	million	million	million
Weighted average number of shares used for earnings per share	**161.8**	**161.8**	103.1	103.1	132.2	132.2
	Basic	Basic	Basic	Basic	Basic	Basic
Earnings per share	pence	pence	pence	pence	pence	pence
Continuing operations						
Loss (after tax and non-controlling interests), being net losses attributable to equity holders of the parent	**(22.1)**	**(22.1)**	(38.4)	(38.4)	(146.9)	(146.9)
Impact of exceptional items[1] net of tax:						
Amortisation of intangible assets - net of tax credit	**6.1**	**6.1**	10.4	10.4	15.5	15.5
Acquisition discount unwind - net of tax credit	**0.4**	**0.4**	1.5	1.5	1.1	1.1
Other exceptional items[1] - net of tax credit	**30.6**	**30.6**	47.9	47.9	161.2	161.2
Earnings from continuing operations before exceptional items	**15.0**	**15.0**	21.4	21.4	30.9	30.9
Discontinued operations						
Earnings (after tax and non-controlling interests), being net profits attributable to equity holders of the parent	**2.5**	**2.5**	9.5	9.5	27.4	27.4
Exceptional items from discontinued operations	**(36.8)**	**(36.8)**	-	-	(39.0)	(39.0)
(Loss)/earnings from discontinued operations	**(34.3)**	**(34.3)**	9.5	9.5	(11.6)	(11.6)
Total earnings per share						
Statutory	**(56.4)**	**(56.4)**	(28.9)	(28.9)	(158.5)	(158.5)
Before exceptional items[1]	**17.5**	**17.5**	30.9	30.9	58.3	58.3

[1] Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see note 1.
[2] Re-presented to show the Living Division as a discontinued operation, see note 9.

9 Assets and liabilities held for sale and discontinued operations

a) Assets held for sale

In June 2019, the Group announced results of its strategic review and concluded that the Group needed to simplify its structure, better allocate its capital resources and reduce net debt. The Directors concluded that Kier Living is not compatible with the Group's working capital objectives and that the division should be sold. Accordingly, the assets and liabilities of Kier Living are classified as held for sale, with assets of £229.9m and liabilities of £104.9m at 31 December 2019. The sale process is progressing and is expected to complete within the next 12 months.

In December 2018, the Group began a formal sales process to dispose of its interest in Pure Recycling Warwick Limited ('Pure'). Heads of terms were signed in June 2019 with a view to completing the sale before the end of the next financial year. The assets have been included at their fair value as at 31 December 2019 of £4.1m of assets and £1.1m of liabilities.

The Group's investment in its joint venture interest in Kier Hammersmith Holdco Limited ('KHL') of £8.4m was classified as held for sale at 30 June 2019. The disposal was completed on 26 September 2019. See note 13 to the consolidated financial statements for further details.

Assets of disposal group classified as held for sale	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Investments in and loans to joint ventures	**54.4**	12.0	8.4
Inventories	**137.6**	-	-
Trade and other receivables	**38.4**	-	0.1
Other assets	**3.6**	-	6.1
Total	**234.0**	12.0	14.6

Liabilities of disposal group classified as held for sale	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Trade and other payables	**(96.7)**	-	(1.5)
Other liabilities	**(9.3)**	-	-
Total	**(106.0)**	-	(1.5)

b) Discontinued operations

Results for Kier Living for the period are classified as discontinued. Prior period results of Kier Living are also restated.

Results of discontinued operations	**Unaudited 6 months to 31 December 2019 £m**	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Revenue	**54.4**	81.5	170.6
Operating costs	**(48.4)**	(70.0)	(132.2)
Operating profit	**6.0**	11.5	38.4
Finance cost	**(1.0)**	(1.7)	(2.2)
Profit before tax and exceptional items	**5.0**	9.8	36.2
Tax	**(1.0)**	-	-
Profit for the period	**4.0**	9.8	36.2
Exceptional items net of tax	**(59.5)**	-	(51.6)
(Loss)/profit for the period from discontinued operations after tax	**(55.5)**	9.8	(15.4)

Notes to the financial statements

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10 Cash, cash equivalents, overdraft and borrowings

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Net debt consists of:			
Cash and cash equivalents – bank balances and cash in hand	**390.8**	434.0	311.7
Borrowings due within one year	**(0.3)**	(49.7)	(30.3)
Borrowings due after one year	**(651.8)**	(589.4)	(473.6)
Impact of cross-currency hedging	**18.8**	24.6	25.0
Net debt	**(242.5)**	(180.5)	(167.2)

Average month-end net debt for the six months to 31 December 2019 was £395m (six months to 31 December 2018: £430m, year to 30 June 2019: £422m). Net debt excludes lease liabilities (31 December 2018 & 30 June 2019: finance lease obligations).

11 Trade and other payables

	Unaudited 6 months to 31 December 2019 £m	Unaudited 6 months to 31 December 2018 £m	Year to 30 June 2019 Total £m
Trade payables	**351.2**	515.7	545.9
Accruals	**457.5**	483.6	540.0
Sub-contract retentions	**41.8**	55.5	45.0
Other taxation and social security	**61.0**	83.7	74.6
Other payables	**141.2**	133.2	105.5
	1,052.7	1,271.7	1,311.0

Included within the trade and other payables balance is £157.1m (31 December 2018: £200.5m, 30 June 2019: £170.2m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

12 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 schemes were disclosed in the 2019 annual financial statements. No shares have vested under the LTIP schemes during the six months to 31 December 2019 (six months to 31 December 2018 and year ended 30 June 2019: 269,461 shares vested).

The Group has also established a SAYE Sharesave scheme. Options to acquire shares in the capital of Kier Group plc are granted to eligible employees who enter into a Sharesave contract, saving a regular sum each month. Participation in the scheme is offered to all employees of the Group who have been employed for a continuous period determined by the Board.

During the six months to 31 December 2019 grants were made under the LTIP and Sharesave schemes as follows:

	LTIP	LTIP subject to a holding period	Sharesave
Grant date	28 October 2019	28 October 2019	13 November 2019
Shares granted	10,959,826	2,265,801	7,199,823
Share price at grant	£1.16	£1.16	£0.87
Exercise price	nil	nil	£1.01
Option life	3 years	3 years	3 years
Holding period	n/a	2 years	n/a
Expected volatility	74.68%	85.53%	68.50%
Dividend yield	n/a	n/a	0.00%
Risk-free interest rate	0.49%	0.51%	0.49%
Value per option:			
LTIP - TSR element [1]	76p	-	-
LTIP - EPS and Net Debt:EBITDA element [2]	116p	-	-
LTIP subject to a holding period - TSR element [3]	-	66p	-
LTIP subject to a holding period - EPS and Net Debt:EBITDA element [3]	-	101p	-
Sharesave [2]	-	-	37p

[1] Based upon a stochastic model.
[2] Based upon the Black-Scholes model.
[3] LTIP awards provided to the Board directors are subject to a 2 year post vesting holding period. The Finnerty model has been used to estimate a discount for the lack of marketability of these shares.

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. The Group's share-based payment charge for the six months to 31 December 2019 was £2.2m (six months to 31 December 2018: £5.1m, year to 30 June 2019: £7.2m).

13 Acquisitions and disposals

The Group has completed the following joint venture disposals during the period, in chronological order:

a) Kier Hammersmith Holdco Limited

On 26 September 2019 the Group, through its subsidiary Kier Property Development Limited, disposed of its interest in Kier Hammersmith HoldCo Limited for a total consideration of £9.1m. The business was classified as held for sale as at 30 June 2019.

	Unaudited 6 months to 31 December 2019 £m
Sale proceeds	**9.1**
Book value of net assets	**(8.4)**
Sale costs	**(0.9)**
Loss on disposal	**(0.2)**

b) Strawberry Percy LLP

On 11 November 2019 the Group, through its subsidiary Kier Property Development Limited, disposed of its interest in Strawberry Percy LLP for a total consideration of £3.6m.

	Unaudited 6 months to 31 December 2019 £m
Sale proceeds	**3.6**
Book value of net assets	**(3.6)**
Sale costs	**(0.3)**
Loss on disposal	**(0.3)**

c) South West Hub

On 23 December 2019 the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Hub SW QMA Hold Co Limited for a total consideration of £1.4m.

	Unaudited 6 months to 31 December 2019 £m
Sale proceeds	**1.4**
Book value of net assets	**(1.0)**
Profit on disposal	**0.4**

Notes to the financial statements
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14 Goodwill and intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software £m	**Total £m**
Cost				
At 1 July 2018	560.2	274.5	151.6	**986.3**
Additions	-	-	11.2	**11.2**
Disposals	(10.6)	(15.1)	(0.2)	**(25.9)**
At 31 December 2018	**549.6**	**259.4**	**162.6**	**971.6**
Additions	-	-	8.6	**8.6**
Disposals	(0.1)	-	(15.4)	**(15.5)**
Transfers to assets held for sale	(4.8)	-	(0.8)	**(5.6)**
At 30 June 2019	**544.7**	**259.4**	**155.0**	**959.1**
Additions	**-**	**-**	**2.3**	**2.3**
Transfers to property, plant and equipment	**-**	**-**	**(8.1)**	**(8.1)**
Transfers to assets held for sale	**-**	**-**	**(10.7)**	**(10.7)**
At 31 December 2019	**544.7**	**259.4**	**138.5**	**942.6**
Accumulated amortisation and impairment				
At 1 July 2018	-	(92.8)	(31.3)	**(124.1)**
Charge for the period	-	(12.8)	(11.3)	**(24.1)**
Disposals	-	6.9	(0.4)	**6.5**
At 31 December 2018	-	**(98.7)**	**(43.0)**	**(141.7)**
Charge for the period	-	(12.2)	(4.0)	**(16.2)**
Disposals	-	0.1	3.2	**3.3**
Impairment	(8.0)	(0.2)	(29.6)	**(37.8)**
At 30 June 2019	**(8.0)**	**(111.0)**	**(73.4)**	**(192.4)**
Charge for the period	**-**	**(11.8)**	**(3.5)**	**(15.3)**
Impairment	-	-	(2.4)	**(2.4)**
Transfers to assets held for sale	**-**	-	9.0	**9.0**
At 31 December 2019	**(8.0)**	**(122.8)**	**(70.3)**	**(201.1)**
Net book value				
At 31 December 2019	**536.7**	**136.6**	**68.2**	**741.5**
At 30 June 2019	536.7	148.4	81.6	766.7
At 31 December 2018	549.6	160.7	119.6	829.9

[1] As at 30 June 2019, following the Strategic Review, impairments were recognised of £8.0m to goodwill and £29.8m to other intangible assets. These impairments were recorded as exceptional items in the year ended 30 June 2019.

15 Related parties

The Group has related party relationships 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 2019.

Details of contributions made to the pension schemes by the Group are detailed in note 5.

16 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.

17 Changes in accounting policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 'Leases' with effect from 1 July 2019 using the modified retrospective (cumulative catch-up) method, and as such comparative information has not been restated. The reclassifications and the adjustments arising from the new lease accounting rules are therefore recognised in the opening balance sheet on 1 July 2019.

The main impact of IFRS 16 has been 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 lease obligations. The associated operating lease charges previously included in administrative expenses have been replaced by depreciation and interest costs.

The Group's financing covenants are linked to the accounting standards in force at the time the facilities were agreed (frozen GAAP).

Measurement of lease liabilities and right-of-use assets

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.87%.

The right-of-use assets associated with the vehicle, plant and the larger property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This did not result in any measurement adjustments immediately after the date of initial application.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review. The Group has adjusted the carrying amount of the right-of-use asset at the date of initial application by the previous carrying amount of its onerous lease provisions at 30 June 2019 up to a maximum of the associated right-of-use asset value;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Hindsight has been used in determining the lease term where the contract contains options to extend or terminate the lease.

As a further practical expedient, the standard permits accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases. This practical expedient can be applied on a lease by lease basis. The Group has chosen to apply this practical expedient to its sundry plant and equipment leases but not its property or vehicle fleet lease portfolios (which form the bulk of its leases). The Group believes this approach will help comparability in the financial periods immediately following adoption of IFRS 16.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

17 Changes in accounting policies continued

Lease liabilities reconciliation

	Property £m	Plant and machinery £m	**Total £m**
Future minimum lease payments under operating leases at 30 June 2019 [1]	167.5	52.1	219.6
Restatement [2]	25.1	-	25.1
Future minimum lease payments under operating leases at 30 June 2019 (restated)	**192.6**	**52.1**	**244.7**
Impact of discounting [3]	(47.1)	(3.2)	(50.3)
Short-term leases	-	(1.0)	(1.0)
Low-value items	-	(1.5)	(1.5)
Adjustments as a result of a different treatment of extension and termination options	(4.0)	-	(4.0)
Additional lease liability at 1 July 2019	**141.5**	**46.4**	**187.9**
Finance lease liability at 30 June 2019 [4]	-	3.1	3.1
Total lease liability at 1 July 2019	**141.5**	**49.5**	**191.0**

[1] As disclosed in note 29 to the Group's Annual Report and Accounts for the year ended 30 June 2019. Amounts relate to non-cancellable leases and are undiscounted.
[2] A detailed review of leases was undertaken as part of the adoption of IFRS 16 and as a result the future minimum lease payments under operating leases has been restated to reflect leases not previously identified and future rental increases that were excluded from the 2019 Annual Report.
[3] Using the incremental borrowing rate at the date of initial application (1 July 2019).
[4] As disclosed in note 22 to the Group's Annual Report and Accounts for the year ended 30 June 2019.

Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Property, plant and equipment - decrease by £7.6m;
- Right-of-use assets - increase by £173.0m;
- Deferred tax assets - increase by £3.4m;
- Prepayments - decrease by £2.1m;
- Provisions - decrease by £4.4m;
- Lease liabilities - increase by £187.9m; and
- Accruals – decrease by £0.2m.

The net impact on retained earnings on 1 July 2019 was a decrease of £16.6m.

Impact of IFRS 16 on the income statement for the six months ended 31 December 2019

	Amounts without adoption of IFRS 16			Impact of adopting IFRS 16			As reported		
Continuing operations	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Profit/(loss) from operations	43.3	(73.5)	(30.2)	3.4	2.4	5.8	46.7	(71.1)	(24.4)
Net finance costs	(12.5)	(0.8)	(13.3)	(3.5)	–	(3.5)	(16.0)	(0.8)	(16.8)
Profit/(loss) before taxation	30.8	(74.3)	(43.5)	(0.1)	2.4	2.3	30.7	(71.9)	(41.2)

Depreciation and interest charges under IFRS 16 were £0.1m more than the operating lease expenses that would have been charged under the previous leases accounting standard. Due to the differing methods of calculation, the impairment of the right-of-use assets under IFRS 16 were £2.4m less than the onerous lease provision that would have been calculated under the previous accounting standards.

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

Notes to the financial statements
Continued

17 Changes in accounting policies continued

Accounting policy adopted

The Group has applied the following accounting policy in respect of leases from 1 July 2019.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions**.**

Most Group companies do not have any recent independent third-party financing to use as a starting point for the incremental borrowing rate. Therefore, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, lease term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected to use the following recognition exemptions, as permitted by the standard:

- Leases of low-value items - The Group has defined low value items as assets that have a value when new of less than c£5,000. Low value items comprise IT equipment and small items of plant.
- Short-term leases – Leases with a lease term of less than 12 months at inception.

For leases in the above categories, a lease liability or right-of-use asset is not recognised. Instead, the Group recognises the related lease payments as an expense on a straight-line basis over the lease term.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for vehicle leases including a maintenance element, the Group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Judgements and estimates

The lease liabilities that were brought onto the balance sheet on transition to IFRS 16 have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as at 1 July 2019. Some judgement has been required in determining the Group's incremental borrowing rates due to a lack of observable rates from recent independent third-party financing at the transition date. Had the discount rates used at 1 July 2019 been determined to be 0.5% higher than the rates used, it would have resulted in a reduction in lease liabilities of c£5.4m at the transition date; whilst a 0.5% decrease in the discount rates used at transition would have resulted in an increase of c£6.4m. However, in each case, the impact on reserves at the transition date would have been mitigated to a large extent by corresponding adjustments to the values of the associated right-of-use assets.

Another factor which affects the level of lease liabilities on the balance sheet is the lease term. IFRS 16 defines the lease term as the non-cancellable period of a lease, together with; periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Therefore, judgement is sometimes required in determining whether the Group is reasonably certain to extend a lease in the future. With regard to the Group's 14 largest property leases (which account for 66% of the total lease liabilities at the transition date) only 3 contain break or extension options. A change in assumptions to base the liability on the minimum and maximum possible periods for these leases would have resulted in a £1.7m reduction or £0.6m increase to the lease liability, respectively.