News Release

KIER

KIER GROUP PLC

INTERIM RESULTS FOR THE

SIX MONTHS TO 31 DECEMBER 2008

25 February 2009

- Underlying pre-tax profits* at £26.4m (2007: £45.6m)
- Underlying EPS* at 51.1p (2007: 90.3p)
- Interim dividend maintained at 18.0p
- Exceptional items total a credit of £4.8m comprising land write-downs of £18.7m and redundancy costs of £0.8m offset by a credit of £24.3m relating to changes in the salary related section of our pension scheme
- £82.2m of net cash at 31 December 2008 (2007: £135.9m) following further investment in the UK Supreme Court development and land purchase commitments
- £410.0m of cash in the Construction division (2007: £373.3m)
- Order books for Construction and Support Services at £3.32bn (2007: £3.20bn)
- Further restructuring of Partnership Homes division

*Underlying pre-tax profits and EPS are stated before amortisation of intangible assets of £1.1m (2007: £1.0m) and before exceptional items.

Commenting on the results, John Dodds, Chief Executive said:

Kier Group plc has continued to perform well and in line with expectations in spite of the current difficult economic conditions, particularly those facing our Partnership Homes and Developments businesses. Our Group continues to be profitable, with positive net cash and our order books remain healthy, particularly in our Construction and Support Services businesses supported by framework agreements and public sector opportunities. The pleasing result reflects the diversity of our earnings base and our approach to risk management.

Kier has the experience, financial strength and track record to weather the current economic uncertainties. We cannot, of course, predict the future but we do believe that Kier is well placed to capitalise on the opportunities that exist in the current environment and to take advantage of any new ones as we emerge from the economic downturn, however long that may take.

Issued by the communications department, Tempsford Hall, Sandy, Bedfordshire SG19 2BD
Tel: 01767 640111 Fax: 01767 641710 email: info@kier.co.uk www.kier.co.uk

Chief executive's review

Overview

Kier Group plc has continued to perform well and in line with expectations in spite of the current difficult economic conditions, particularly those facing our Partnership Homes and Developments businesses. Our Group continues to be profitable, with positive net cash and our order books remain healthy.

Our Construction and Support Services businesses are busy. Revenue for the six months to 31 December 2008 was ahead of the same period last year and our order books remain strong largely supported by framework agreements and public sector opportunities. Our Construction operating margin increased from 1.8% to 2.4% and in Support Services we continue to maintain the operating margin at 4.0%; these results reflecting the good quality of work we are carrying out in both businesses.

Our Partnership Homes division, which now encompasses the former Kier Homes, our private housing business, and Kier Partnership Homes, our social housing contracting business, has performed in-line with our expectations. Despite poor buyer sentiment and a continued lack of liquidity in the mortgage and general lending market, the division completed 511 unit sales for the half-year (2007: 1,155) and generated a small underlying operating profit. Our Developments division, which includes our property development business together with our PFI investment business, continues to generate underlying operating profits, and is active on a number of developments. Our recently formed joint venture with Network Rail is progressing well on some early development proposals.

Financial results

Total revenue for the six months to 31 December 2008 was £1,108.7m (2007: £1,205.5m), with growth in revenue in each of the Construction and Support Services divisions offset, as expected, by a reduction in each of the Partnership Homes and Developments divisions reflecting the continuing effects of the credit crunch. Underlying operating profit was 41% less than last year at £24.9m (2007: £42.3m), the decline attributable to our Partnership Homes and Developments divisions offsetting significant growth in Construction and Support Services. Exceptional items amounted to a £4.8m credit (2007: £nil) analysed as follows:

	£m
Pension credit arising from changes to the salary related section of the Kier Group Pension Scheme	24.3
Redundancy and reorganisation costs associated with our Partnership Homes business	(0.8)
Provisions against land and work in progress	
Partnership Homes	(12.2)
Developments	(6.5)
Total exceptional items	4.8

In line with many other companies the Board closely monitors the Group's salary-related pension liabilities and has an obligation to reduce volatility and mitigate risk. The Board has decided to restrict future pensionable salary increases for active members in the final salary section of the Kier Group Pension Scheme to the lower of actual pay increases and the annual rate of increase in RPI. The £24.3m credit to the income statement and corresponding improvement in the funding position of the Scheme has arisen as a result of this restriction in future increases in pensionable salary. It should reduce the recovery period over which the Group has agreed to meet the funding deficit.

Profit before tax was £25.3m (2007: £44.6m) after amortisation of intangible assets and before exceptional items. Adjusted earnings per share, before the amortisation of intangible assets and exceptional items, were 51.1p (2007: 90.3p).

Cash continues to be strong with net balances in the six months averaging £61m, ending the period at a net balance of £82.2m (2007: £135.9m). Healthy cash balances continued to be maintained in the Construction division which were, on average, £31m ahead of the same period last year. Within our Partnership Homes division, our income from unit sales was insufficient to cover our committed land expenditure and trade payments following the end of June increase in inventory. Consequently we experienced a cash outflow of £38.2m. This, coupled with our continued investment in the UK Supreme Court development, led to an outflow of Group cash of £61.7m in the period.

Our treasury balances averaged £42m (2007: £111m) during the period and, in addition to our cash resources, we have banking facilities of £105m including five-year facilities amounting to £92.5m which are not due for renewal until February 2011.

Net assets at 31 December 2008 grew to £189.3m (2007: £179.9m).

Taking into account the current market conditions and the outlook for the Group the Board is pleased to announce its decision to maintain the interim dividend at 18.0p, the same level as the 2008 interim dividend. The interim dividend is 2.8 times covered by adjusted earnings per share and will be paid to shareholders on 1 May 2009 with the usual scrip dividend alternative.

Construction

The Construction division comprises Kier Regional and Kier Construction. Kier Regional encompasses our ten regional contracting businesses and our major building projects business. Kier Partnership Homes, our social housing contracting business, was transferred to the Partnership Homes division on 1 July 2008 and comparative figures have been restated accordingly. Kier Construction comprises the Group's infrastructure and overseas operations with civil engineering, infrastructure, rail, mining and remediation capability.

Revenue increased by 1.6% to £794.2m (2007: £781.9m). Operating profit increased by 36.7% to £19.0m (2007: £13.9m) and the operating margin increased from 1.8% to 2.4%, in-line with our target of 2.5% for the year. This reflects the quality of work we are carrying out, much of it awarded through frameworks, negotiated and two-stage tenders.

Cash generation continued to be good with cash balances, after tax and dividends, of £410.0m at 31 December 2008 (2007: £373.3m) and average cash balances £31m ahead of those in the same period last year. The order book at 31 December was £1,490m (2007: £1,530m) and, in addition, we have a healthy pipeline of orders, many of which are at the preferred bidder stage and are close to being awarded.

In the six months to 31 December 2008 we have seen a surge in the level of public sector work awarded now representing 67% of our total awards compared with 50% last year. Education work, in particular, has been buoyant accounting for £400m (59%) of our total awards for the six month period. In October 2008 financial close was achieved on a Building Schools for the Future project for Kent County Council which has secured us £110m worth of education work on five schools in the first wave of projects and we have been selected for a further six schools worth £160m in the second wave which will start during 2010. Through the Academies Framework we have been awarded two major contracts in the period; the £20m Samworth Academy and the £24m Shropshire One School Pathfinder. In addition to our order books we are preferred bidder on six schemes throughout the country with an expected value of £270m, including four academies valued at £90m in Cumbria and the North West.

The health and custodial sectors have also been active. The ProCure 21 health framework has provided us with £324m of work to date including £34m in the six months to 31 December 2008. With one more year to run on this framework we continue to bid for a variety of schemes. In the custodial sector we are currently on site at nine prisons, including Norwich, Frankland and Lewes, and we have been awarded a further £21m of work in the period through the Ministry of Justice custodial framework.

In the private sector we have been awarded a number of projects under the BAA framework including a £9m portfolio at Heathrow for projects under £2m and we remain active on our retail frameworks with Tesco, Sainsbury, Morrison and the John Lewis Partnership. Whilst a number of private sector developers are cautious on future development plans we are still securing work from a number of key clients including the award of £62m of work in the period accounting for 9% of our total awards (2007: 26%).

The energy sector accounted for 17% of our awards in the six months to 31 December 2008 including the £95m contract at West Burton, Nottingham, where we are providing civil engineering works for a 1200mw CCGT power station for EDF Energy. With one of the best track records in civil engineering for power stations we are well placed to take advantage of the growing opportunities in this sector. We are preferred bidder with VT on a waste treatment plant at Wakefield and are exploring a number of opportunities in the nuclear sector, building on our experience including our current work at Sellafield and for AWE at Aldermaston. At our opencast coal mine, Greenburn, East Ayrshire, we have now extracted 3.0m tonnes of coal since we began production in 2004. We expect to continue mining here beyond 2014 and are exploring further opportunities on adjoining sites which could increase our reserves significantly.

Overseas, in Romania, we have been busy on water infrastructure projects for the Romanian Government as well as major residential and retail projects for private developers. In the Middle East our focus is switching from Dubai to areas such as Saudi Arabia where we have strong relationships and are already well established. Our market in Dubai has traditionally been infrastructure and drainage projects, predominantly for the Dubai government, and whilst these are still a necessary part of Dubai's expansion, we are cautious about any further growth in this area. In Saudi Arabia, on the other hand, we are establishing a new phosphate mine in joint venture with our local partner and are due to start mining later this year for a period of eight years. Further opportunities are being explored in this area.

The outlook for our Construction businesses remains positive. Our secured order books and probable awards together secure around 80% of our revenue for 2010. Kier is fortunate in being well established on a large number of public sector frameworks, including a great many local authority frameworks, as well as frameworks for the private sector. We also have a good track record in the energy sector having built 14 power stations over the past 18 years. All of this together with the advantages of a wide national coverage and low average contract size positions us well to manage risk and attract new work.

Support Services

Support Services comprises Kier Building Maintenance, Kier Facilities Services, Kier Street Services and Kier Plant. Kier Building Maintenance provides reactive and planned maintenance largely to local authorities; Kier Facilities Services provides facilities management, as well as mechanical and electrical services maintenance, to public and private sector clients; Kier Street Services provides services within the waste and recycling, street scene and grounds maintenance sectors and Kier Plant hires construction plant to Kier Group companies and external clients.

Revenue in this segment increased by 25.2% to £224.4m (2007: £179.3m) and operating profit, before deducting the amortisation of intangibles of £1.1m (2007: £1.0m), increased by 20.3% to £8.9m (2007: £7.4m) maintaining the operating margin at 4.0% (2007: 4.0%). Cash generation within this business remains strong with cash balances at 31 December 2008 of £19.7m (2007: £18.9m) net of our investment in Plant of £19m.

Order books at 31 December 2008 of £1,831m (2007: £1,674m) reflect a continued strong market for building maintenance and facilities management contracts.

Kier Building Maintenance remains the largest and fastest growing area of the division with revenues for the six months to 31 December 2008 at £169.3m (2007: £127.8m) representing a 32.5% increase on last year largely due to the inclusion of the Stoke contract which was awarded at £40m per annum commencing in February 2008. We were awarded the Boston Mayflower contract during the period which will start in April 2009 providing us with £1.9m of revenue per annum for 10 years for maintaining 4,600 social homes. No further major contract wins are anticipated for contribution this financial year but growth continues in a number of our existing contracts. We currently maintain 228,000 social homes across the country including 22,000 under the Government's Decent Homes Initiative. These homes need continuous maintenance and our long-term contracts provide us with excellent revenue visibility. The pipeline of opportunities in this sector remains strong. We remain one of two bidders on the £45m per annum contract in North Tyneside where the housing stock stands at 16,000 units.

Kier Facilities Services, which focuses on facilities management outsourcing and mechanical and electrical installation and maintenance, generated £47.1m of revenue in the period (2007: £52.1m). We were delighted to renew our contract with Legal & General at an increased value of £7m per annum for four years and were awarded a £44m contract for Surrey County Council for four years to maintain their mechanical and electrical installations and the fabric of council properties. A significant number of further opportunities are available as businesses and public sector clients look at outsourcing more and more of their services including a £6m per annum, seven-year, contract for Sheffield City Council on which we are shortlisted to provide cleaning and other services for the council's numerous commercial properties.

The outlook for this segment of our business also remains positive. Much of its work is carried out in long-term contracts for local authorities and other public sector clients and in the major contract arena (£20m per annum plus) Kier has an unrivalled track record in winning and delivering such contracts.

Partnership Homes

Following the very tough market conditions facing our Homes business last year, we successfully merged our five Homes operating businesses into one. We are currently further restructuring the division to fully merge our social housing contracting business with our Homes business to form Kier Partnership Homes. The reorganisation will lead to increased efficiencies in the business reducing costs by around £20m per annum from the level at the beginning of last year. We will incur further reorganisation costs this financial year of which £0.8m has been included as an exceptional cost in the half-year results.

In the six months to 31 December 2008 the division generated revenue of £67.5m (2007: £177.4m) and operating profit of £0.4m (2007: £20.5m). 54% percent of the revenue for the period was generated from social housing sales, mostly under contracts with housing associations, and 46% was generated from private unit sales (2007: 27% social, 73% private).

Volumes have continued in line with our expectations and we are on target to achieve our projected unit completions this financial year. Selling prices have reduced by some 10% to 15% in certain areas over the period and as a consequence we have re-examined our land carrying values taking into account current selling prices. We have focussed particularly on sites which carry completed units and we have written-down land values by an additional £12.2m in the six months to 31 December 2008. These write-downs, together with the £26.6m taken in the year to 30 June 2008, represent around 13% of the total value of the land bank.

There was a cash outflow of £38.2m in this division in the period including the final settlement for Hugh Bourn Homes of £12m, committed land purchases and options of £15m, and restructuring costs of £7m.

No new land purchases are being considered although £51m of further committed land expenditure is expected of which £35m falls in the remainder of this financial year. Our land bank at 31 December 2008 is carried in the books at £264.4m (after land write-downs) (June 2008: £276.0m). This represents around 369 acres with planning consent.

The outlook for the homes market continues to be difficult to predict, however, we are exploring a number of avenues by which to generate value and cash for Kier including the following:

- Conversion of private housing sites to social housing through our relationships and contacts in the social housing business;
- Conversion of some of our consented land bank as well as the strategic land portfolio using the skills of Kier Property, our developments business, in order to maximise value through a process of re-planning for mixed-use, mixed-tenure and, where appropriate, commercial use. The strategic portfolio has been transferred to Kier Property's control in order to improve focus on this and we have already achieved planning on a wholly-owned strategic site which will give us considerable value once a sensible land market returns; and
- The HomeBuy Direct equity scheme, where we have been approved by the Government on a number of sites to sell units which will be owned 70% by the purchaser (who must qualify under strict criteria), 15% by central government and 15% by the developer (Kier). Up to 200 of our units are being marketed under this scheme.

Our order books at 31 January 2009 together with completions to date secure over 86% of our full year target for completions.

Developments

Our Developments segment comprises Kier Property, which includes commercial, office, industrial, retail and mixed-use developments both directly and through joint ventures; Kier Project Investment, our PFI investment business; and Kier Asset Partnership Services (KAPS) which has been established to bid for local authority property management and development.

Revenue for the six months to 31 December 2008 of £22.6m (2007: £66.9m) was 66.2% below last year, reflecting a low level of development sales within our Property business and operating profit for the period was £0.6m (2007: £7.5m). An analysis of the results is set out below:

	Six months to 31 December			
	2008		2007	
	Revenue	Operating profit	Revenue	Operating profit
	£m	£m	£m	£m
Property	14.7	0.6	58.3	7.5
Project Investment	7.9	0.8	8.6	0.2
KAPS	-	(0.8)	-	(0.2)
	22.6	0.6	66.9	7.5

Within our Property business, good construction progress is being made on the new UK Supreme Court which is due to be completed, on time and within budget, in March 2009. This £35m development is being funded on our balance sheet and represents a marketable 30-year income stream with a government-backed covenant. At Western International Market, Hounslow, we completed construction of a major new fruit and vegetable market for the London Borough of Hounslow and the site previously occupied by the old market has been transferred into our control. We are currently seeking a pre-sale or pre-let of the site prior to commencing any construction.

At Reading Kier Build, as the contractor, is making good progress on a 216,000sq ft development, to be largely occupied by Yell, and further pre-lets are being sought. Our recently formed joint venture with Network Rail includes a number of good development opportunities and the first of the seven identified sites is progressing towards construction. Occupier interest is very encouraging.

Following on from our successful headquarters scheme for the National Trust, the Ordnance Survey headquarters development in Southampton is making good progress with the planners and we hope to start on site in the spring of this year. On completion of the new headquarters building the site, which is currently occupied by Ordnance Survey, will be released for the development of a mixed-use scheme.

Kier Project Investment, our PFI business, had a number of successes. We completed construction on the Norwich Schools project, which now means all 12 of our current investments are operational. This coincided with our final injection of sub-debt bringing our total investment in PFI projects to £18.5m. The Directors' valuation of the investment is approximately £41.5m based on discounting the cash flows at 7%.

We were delighted to have been selected as preferred bidder on the £60m Police Investigation Centres for six new facilities across Norfolk and Suffolk. Kier Regional is the contractor and construction is due to commence towards the end of the year. We are also shortlisted on a number of projects including Woking Social Housing, Liverpool Library, Sussex Care Homes and fire station projects in Gloucester and the North West.

KAPS has been established to bid for local authority outsourcing of property management. We are currently shortlisted as one of two bidders for a seven-year contract in Sheffield which will provide a £6m contract for Kier Facilities Services as well as the property development opportunities that emerge from managing the City Council's extensive commercial property portfolio.

Pensions

At 31 December 2008 the net pension position of the Kier Group Pension Scheme calculated in accordance with IAS 19 'Employee Benefits', shows a net surplus of £2.7m (December 2007: net deficit £29.3m, June 2008 net deficit £32.9m). The improvement in the period is largely due to two factors:

- Changes to pension benefits for active members in the final salary section of the Kier Group Pension Scheme leading to a reduction in the deficit of £24.3m;
- Actuarial gains giving a reduction in the deficit of £19.9m

The £24.3m improvement in the funding position of the Scheme has arisen as a result of the Board's decision to restrict future pensionable salary increases for active members in the salary related section of the Kier Group Pension Scheme to the lower of actual pay increases and the annual rate of increase in RPI. Earlier valuations assumed that salaries would increase at 1.5% above the rate of increase in RPI and, therefore, the change in basis results in a reduction in the pension deficit and, importantly, will reduce volatility in the scheme liabilities in the future.

The actuarial gains for accounting purposes result from the requirement, under IAS 19, to apply a discount rate to future liabilities based on AA corporate bond yields. Whilst the Board considers this to be an unrealistic discount rate to apply in the current market, the mathematical exercise results in a small pension surplus at the period end.

We continue to make special contributions to the Kier Group Pension Scheme, over and above our normal contributions, at the rate of £8m per annum for 10 years.

Health and Safety

During the last 12 months Kier's safety activity has been focussed on 'back to basics'. In order to support this process we have embarked on a positive safety leadership programme which targets people's behaviour using a process of identifying safe and unsafe acts. This process, together with our Accident Potential Ratings Inspection System, is having a significant positive effect on the culture of Kier staff and supply chain members.

In December 2008 our Accident Incident Rate was 475 and the Accident Frequency Rate was 0.22. These figures are our best ever recorded and are a clear indicator of the efforts being made by both our staff and the supply chain to ensure we continue to deliver safe projects. The figures compare favourably with the industry average Accident Incident Rate which currently stands at 865.

Prospects

Kier has the experience, financial strength and track record to weather the current economic uncertainties. Our Construction and Support Services order books are healthy, our businesses are resilient and, importantly, our people, in all areas of the Group are dedicated, committed, innovative and experienced. We cannot, of course, predict the future but we do believe that Kier is well placed to capitalise on the opportunities that exist in the current environment and to take advantage of any new ones as we emerge from the economic downturn, however long that may take.

John Dodds
Chief Executive
24 February 2009

Consolidated income statement
for the six months ended 31 December 2008

	Notes	Unaudited 6 months to 31 December 2008 Before exceptional items 2008 £m	Exceptional items* 2008 £m	Total 2008 £m	Unaudited 6 months to 31 December 2007 £m
Revenue					
Group and share of joint ventures	5	**1,108.7**	**-**	**1,108.7**	1,205.5
Less share of joint ventures		**(23.0)**	**-**	**(23.0)**	(30.9)
Group revenue		**1,085.7**	**-**	**1,085.7**	1,174.6
Cost of sales		**(992.8)**	**(13.4)**	**(1,006.2)**	(1,071.4)
Gross profit		**92.9**	**(13.4)**	**79.5**	103.2
Administrative expenses		**(67.3)**	**(0.8)**	**(68.1)**	(61.3)
Curtailment credit on retirement benefit obligation		**-**	**24.3**	**24.3**	-
Share of post tax results of joint ventures		**(0.7)**	**(3.8)**	**(4.5)**	0.4
Profit from operations	5	**24.9**	**6.3**	**31.2**	42.3
Finance income		**3.2**	**-**	**3.2**	5.4
Finance cost		**(2.8)**	**-**	**(2.8)**	(3.1)
Profit before tax	5	**25.3**	**6.3**	**31.6**	44.6
Income tax	7	**(7.0)**	**(2.8)**	**(9.8)**	(12.3)
Profit for the period		**18.3**	**3.5**	**21.8**	32.3
Attributable to:					
Equity holders of the parent		**17.8**	**3.5**	**21.3**	31.8
Minority interests		**0.5**	**-**	**0.5**	0.5
		18.3	**3.5**	**21.8**	32.3
Earnings per share					
- basic	9	**48.9p**		**58.5p**	88.3p
- diluted		**48.9p**		**58.5p**	87.8p
Adjusted earnings per share (excluding the amortisation of intangible assets)					
- basic	9	**51.1p**			90.3p
- diluted		**51.1p**			89.8p

*Exceptional items relate to land and work in progress write-downs, restructuring costs and a pensions curtailment credit (note 6)

Consolidated income statement continued
for the year ended 30 June 2008

	Notes	Before exceptional items £m	Exceptional items* £m	Total £m
Revenue				
Group and share of joint ventures	5	2,374.2	-	2,374.2
Less share of joint ventures		(41.8)	-	(41.8)
Group revenue		2,332.4	-	2,332.4
Cost of sales		(2,122.1)	(28.1)	(2,150.2)
Gross profit		210.3	(28.1)	182.2
Administrative expenses		(127.4)	(9.5)	(136.9)
Share of post tax profits from joint ventures		0.9	(2.3)	(1.4)
Profit on disposal of joint venture		-	16.2	16.2
Profit from operations	5	83.8	(23.7)	60.1
Finance income		9.8	-	9.8
Finance cost		(6.5)	-	(6.5)
Profit before tax	5	87.1	(23.7)	63.4
Income tax	7	(24.5)	9.3	(15.2)
Profit for the year		62.6	(14.4)	48.2
Attributable to:				
Equity holders of the parent		61.6	(14.4)	47.2
Minority interests		1.0	-	1.0
		62.6	(14.4)	48.2
Earnings per share				
- basic	9	170.6p		130.7p
- diluted		169.2p		129.7p
Adjusted earnings per share (excluding the amortisation of intangible assets)				
- basic	9	174.8p		
- diluted		173.4p		

*Exceptional items relate to land and work in progress write-downs, restructuring costs and the profit on disposal of a joint venture (note 6)

Consolidated statement of recognised income and expense
for the six months ended 31 December 2008

	Unaudited 6 months to 31 December 2008 £m	Unaudited 6 months to 31 December 2007 £m	Year to 30 June 2008 £m
Foreign exchange translation differences	**-**	-	0.7
Fair value movements in cash flow hedging instruments	**(23.7)**	(13.2)	(6.2)
Actuarial gains and losses on defined benefit pension schemes	**23.3**	(17.0)	(33.5)
Deferred tax on items recognised directly in equity	**0.1**	8.5	11.2
Income and expense recognised directly in equity	**(0.3)**	(21.7)	(27.8)
Profit for the period	**21.8**	32.3	48.2
Total recognised income and expense for the period	**21.5**	10.6	20.4
Attributable to:			
Equity holders of the parent	**21.0**	10.1	19.4
Minority interests	**0.5**	0.5	1.0
	21.5	10.6	20.4

Consolidated balance sheet

at 31 December 2008

	Notes	**Unaudited 31 December 2008 £m**	Unaudited 31 December 2007 £m	30 June 2008 £m
Non-current assets				
Intangible assets		**12.3**	12.6	13.4
Property, plant and equipment	10	**92.5**	84.6	92.2
Investment in joint ventures		**28.6**	37.3	39.9
Retirement benefit surplus	11	**5.7**	6.3	-
Deferred tax assets		**-**	11.5	13.1
Other financial assets		**-**	-	0.1
Trade and other receivables		**21.2**	14.8	17.4
Non-current assets		**160.3**	167.1	176.1
Current assets				
Inventories		**515.6**	482.9	516.4
Other financial assets		**-**	0.6	0.9
Trade and other receivables		**309.1**	300.3	361.3
Income tax receivable		**1.3**	-	1.9
Cash and cash equivalents		**112.4**	166.1	174.1
Current assets		**938.4**	949.9	1,054.6
Total assets		**1,098.7**	1,117.0	1,230.7
Current liabilities				
Trade and other payables		**(824.1)**	(779.0)	(914.2)
Other financial liabilities		**(0.7)**	-	-
Tax liabilities		**(0.9)**	(9.4)	(2.6)
Provisions		**(10.4)**	(1.2)	(12.0)
Joint venture investment classified as held for sale		**-**	(5.1)	-
Current liabilities		**(836.1)**	(794.7)	(928.8)
Non-current liabilities				
Long-term borrowings		**(30.2)**	(30.2)	(30.2)
Trade and other payables		**(14.2)**	(36.4)	(13.5)
Other financial liabilities		**(0.3)**	-	-
Retirement benefit obligations	11	**-**	(40.8)	(46.7)
Provisions		**(22.2)**	(24.3)	(21.9)
Deferred tax liabilities		**(6.4)**	(10.7)	(6.5)
Non-current liabilities		**(73.3)**	(142.4)	(118.8)
Total liabilities		**(909.4)**	(937.1)	(1,047.6)
Net assets		**189.3**	179.9	183.1
Equity				
Share capital		**0.4**	0.4	0.4
Share premium		**34.4**	32.5	34.4
Capital redemption reserve		**2.7**	2.7	2.7
Retained earnings		**165.8**	146.9	142.0
Cash flow hedge reserve		**(14.5)**	(2.5)	2.6
Translation reserve		**0.1**	(0.6)	0.1
Equity attributable to equity holders of the parent		**188.9**	179.4	182.2
Minority interests		**0.4**	0.5	0.9
Total equity	12	**189.3**	179.9	183.1

Consolidated cash flow statement
for the six months ended 31 December 2008

	Unaudited 6 months to 31 December 2008 £m	Unaudited 6 months to 31 December 2007 £m	Year to 30 June 2008 £m
Cash flows from operating activities			
Profit before tax	**31.6**	44.6	63.4
Non cash exceptional items			
Restructuring costs	**0.8**	-	9.5
Land and work in progress write-downs	**17.2**	-	30.4
Curtailment credit on retirement benefit obligation	**(24.3)**	-	-
Profit on disposal of joint venture	**-**	-	(16.2)
Other adjustments			
Share of post tax results of joint ventures	**0.7**	(0.4)	(0.9)
Normal contributions to pension fund in excess of pension charge	**(0.8)**	(3.2)	(4.6)
Share-based payments charge	**-**	1.6	1.0
Amortisation of intangible assets	**1.1**	1.0	2.1
Depreciation charges	**6.9**	8.5	16.4
Profit on disposal of property, plant & equipment	**(1.1)**	(0.6)	(1.0)
Net finance income	**(0.4)**	(2.3)	(3.3)
Operating cash flows before movements in working capital	**31.7**	49.2	96.8
Special contributions to pension fund	**(4.0)**	(3.0)	(6.0)
Payment of restructuring costs	**(6.6)**	-	(1.4)
Increase in inventories	**(12.3)**	(22.8)	(84.3)
Decrease/(increase) in receivables	**49.2**	15.5	(48.7)
(Decrease)/increase in payables	**(80.3)**	(14.8)	97.8
Increase in provisions	**3.8**	2.6	2.4
Cash (outflow)/inflow from operating activities	**(18.5)**	26.7	56.6
Dividends received from joint ventures	**0.2**	0.5	0.8
Interest received	**3.0**	4.9	9.6
Income taxes paid	**(3.8)**	(4.1)	(18.4)
Net cash (used)/generated from operating activities	**(19.1)**	28.0	48.6
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment	**2.1**	0.8	2.5
Proceeds from sale of joint venture	**-**	-	13.6
Purchases of property, plant & equipment	**(7.1)**	(10.7)	(27.5)
Acquisition of subsidiaries, including net borrowings acquired	**(12.1)**	(12.9)	(16.5)
Investment in joint ventures	**(9.0)**	(1.2)	(2.9)
Net cash used in investing activities	**(26.1)**	(24.0)	(30.8)
Cash flows from financing activities			
Purchase of own shares	**(0.8)**	(5.5)	(5.5)
Interest paid	**(1.2)**	(1.2)	(2.3)
Dividends paid to equity shareholders	**(13.5)**	(9.0)	(13.6)
Distributions to minority interests	**(1.0)**	(0.8)	(0.9)
Net cash used in financing activities	**(16.5)**	(16.5)	(22.3)
Decrease in cash and cash equivalents	**(61.7)**	(12.5)	(4.5)
Opening cash and cash equivalents	**174.1**	178.6	178.6
Closing cash and cash equivalents	**112.4**	166.1	174.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents	**(61.7)**	(12.5)	(4.5)
Opening net funds	**143.9**	148.4	148.4
Closing net funds	**82.2**	135.9	143.9
Net funds consist of:			
Cash and cash equivalents	**112.4**	166.1	174.1
Long-term borrowings	**(30.2)**	(30.2)	(30.2)
Net funds	**82.2**	135.9	143.9

Notes to the interim financial statements

1. Reporting entity

Kier Group plc (the Company) is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements (interim financial statements) of the Company as at, and for the six months ended, 31 December 2008 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The interim financial information in this statement does not constitute statutory accounts, as defined in section 240 of the Companies Act 1985. The statutory accounts for the year to 30 June 2008 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2. Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the financial statements of the Group as at, and for the year ended, 30 June 2008.

These interim financial statements were approved by the directors on 24 February 2009.

3. Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its financial statements as at, and for the year ended, 30 June 2008.

The following amendments to standards or interpretations are mandatory for the first time for the financial year ending 30 June 2009:

IFRS 2 'Amendments to share based payments: vesting conditions and cancellations'
IFRIC 14 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction.'

The adoption of these amendments and interpretations has not resulted in changes to the Group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ending 30 June 2009:

IAS 23 'Amendments to borrowing costs'
IAS 27R 'Consolidated and separate financial statements'
IFRS 3R 'Business combinations'
IFRS 8 'Operating segments'
IFRIC 12 'Service concession arrangements'

The directors have considered the impact of these new standards and interpretations in future periods and no significant impact is expected. The Group has chosen not to adopt any of the above standards and interpretations early.

4. Estimates and financial risk management

The preparation of interim financial statements requires the directors to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by the directors in applying the Group's accounting policies and the key sources of estimation uncertainty together with the Group's financial risk management objectives and policies were the same as those that applied to the financial statements as at, and for the year ended, 30 June 2008.

5 Segmental analysis

During the year to 30 June 2008 the Group comprised five divisions: Construction, Support Services, Homes, Property and Infrastructure Investment, and it was on this basis that the Group presented its primary segmental information.

To respond positively to changing market conditions the Group was restructured on 1 July 2008, to bring the Group's operations closer together and provide increased efficiencies. The revised structure comprises four divisions: Construction, Support Services, Partnership Homes and Developments.

The changes to the structure are:

- The affordable homes business, Kier Partnership Homes, previously part of the Construction division, has been combined with the Homes division to form the Partnership Homes division.
- The Property and Infrastructure Investment divisions together with a new business stream, Kier Asset Partnership Services (KAPS), have been combined to form the Developments division. KAPS is currently a bidding operation and for the year ended 30 June 2008 its costs were included in Support Services.

These new divisions reflect the revised Group management structure and are the basis on which the Group reports its primary segmental information and the results for the six months to 31 December 2007 and for the year to 30 June 2008 have been restated accordingly.

The results for Kier Partnership Homes, reallocated from Construction to the Partnership Homes division (formerly Homes), and the cost of KAPS, reallocated from Support Services to Developments, are set out below:

	Six months to 31 December 2007			Year to 30 June 2008		
	Revenue £m	Operating profit £m	Profit before tax £m	Revenue £m	Operating profit £m	Profit before tax £m
Kier Partnership Homes	34.2	0.4	0.7	68.7	1.7	2.2
KAPS	-	(0.2)	(0.2)	-	(0.6)	(0.6)

Notes to the interim financial statements continued

5 Segmental analysis continued

Six months to 31 December 2008	Construction £m	Support Services £m	Partnership Homes £m	Developments £m	Centre £m	Group £m
Revenue						
Group and share of joint ventures	**794.2**	**224.4**	**67.5**	**22.6**	**-**	**1,108.7**
Less share of joint ventures	(1.5)	-	-	(21.5)	-	**(23.0)**
Group revenue	792.7	224.4	67.5	1.1	-	**1,085.7**
Profit						
Group operating profit	19.0	7.8	0.4	-	(1.6)	**25.6**
Share of joint ventures' operating profit	-	-	-	0.6	-	**0.6**
Group and share of joint ventures	**19.0**	**7.8**	**0.4**	**0.6**	**(1.6)**	**26.2**
Share of joint ventures - finance cost	-	-	-	(1.1)	-	**(1.1)**
- tax	-	-	-	(0.2)	-	**(0.2)**
Profit from operations before exceptional items	**19.0**	**7.8**	**0.4**	**(0.7)**	**(1.6)**	**24.9**
Land and work in progress write-downs[1]	-	-	(12.2)	(5.0)	-	**(17.2)**
Restructuring costs	-	-	(0.8)	-	-	**(0.8)**
Curtailment credit on retirement benefit obligation	-	-	-	-	24.3	**24.3**
Profit from operations	19.0	7.8	(12.6)	(5.7)	22.7	**31.2**
Finance income/(cost)[2]	9.9	0.1	(9.8)	(0.1)	0.3	**0.4**
Profit before tax	**28.9**	**7.9**	**(22.4)**	**(5.8)**	**23.0**	**31.6**
Balance sheet						
Total assets	321.3	100.4	467.0	71.7	25.9	**986.3**
Total liabilities	(624.3)	(98.6)	(85.0)	(9.2)	(62.1)	**(879.2)**
Net operating assets/(liabilities)	(303.0)	1.8	382.0	62.5	(36.2)	**107.1**
Cash net of debt	410.0	19.7	(280.8)	(49.8)	(16.9)	**82.2**
Net assets	**107.0**	**21.5**	**101.2**	**12.7**	**(53.1)**	**189.3**

[1]Developments' land and work in progress write-downs are shown net of joint venture tax of £1.5m.
[2]Interest is (charged)/credited to the divisions at a notional rate of 6.0% and 5.5%

Six months to 31 December 2007	Construction £m	Support Services £m	Partnership Homes £m	Developments £m	Centre £m	Group £m
Revenue						
Group and share of joint ventures	781.9	179.3	177.4	66.9	-	1,205.5
Less share of joint ventures	-	-	-	(30.9)	-	(30.9)
Group revenue	781.9	179.3	177.4	36.0	-	1,174.6
Profit						
Group operating profit	13.9	6.4	20.3	4.9	(3.6)	41.9
Share of joint ventures' operating profit	-	-	0.2	2.6	-	2.8
Group and share of joint ventures	13.9	6.4	20.5	7.5	(3.6)	44.7
Share of joint ventures - finance cost	-	-	-	(1.5)	-	(1.5)
- tax	-	-	-	(0.9)	-	(0.9)
Profit from operations	13.9	6.4	20.5	5.1	(3.6)	42.3
Finance income/(cost)	10.0	0.1	(7.6)	-	(0.2)	2.3
Profit before tax	23.9	6.5	12.9	5.1	(3.8)	44.6
Balance sheet						
Total assets	285.0	98.5	465.7	69.9	31.8	950.9
Total liabilities	(570.9)	(101.4)	(117.9)	(20.2)	(96.5)	(906.9)
Net operating assets/(liabilities)	(285.9)	(2.9)	347.8	49.7	(64.7)	44.0
Cash, net of debt	373.3	18.9	(204.5)	(33.6)	(18.2)	135.9
Net assets	87.4	16.0	143.3	16.1	(82.9)	179.9

Notes to the interim financial statements continued

5 Segmental analysis continued

Year to 30 June 2008	**Construction £m**	**Support Services £m**	**Partnership Homes £m**	**Developments £m**	**Centre £m**	**Group £m**
Revenue						
Group and share of joint ventures	1,584.5	393.7	311.5	84.5	-	2,374.2
Less share of joint ventures	(1.2)	-	-	(40.6)	-	(41.8)
Group revenue	1,583.3	393.7	311.5	43.9	-	2,332.4
Profit						
Group operating profit	36.6	14.1	31.9	7.6	(7.3)	82.9
Share of joint ventures' operating profit	-	-	0.3	4.1	-	4.4
Group and share of joint ventures	36.6	14.1	32.2	11.7	(7.3)	87.3
Share of joint ventures - finance cost	-	-	-	(2.4)	-	(2.4)
- tax	-	-	(0.1)	(1.0)	-	(1.1)
Profit from operations before exceptional items	36.6	14.1	32.1	8.3	(7.3)	83.8
Land and work in progress write-downs[1]	-	-	(26.6)	(3.8)	-	(30.4)
Restructuring costs	-	-	(9.5)	-	-	(9.5)
Profit on disposal of joint venture	-	-	-	16.2	-	16.2
Profit from operations	36.6	14.1	(4.0)	20.7	(7.3)	60.1
Finance income/(cost)	20.2	0.7	(17.2)	(0.3)	(0.1)	3.3
Profit before tax	56.8	14.8	(21.2)	20.4	(7.4)	63.4
Balance sheet						
Total assets	363.6	107.8	481.9	72.1	31.2	1,056.6
Total liabilities	(671.9)	(106.1)	(121.3)	(13.5)	(104.6)	(1,017.4)
Net operating assets/(liabilities)	(308.3)	1.7	360.6	58.6	(73.4)	39.2
Cash, net of debt	409.5	17.4	(242.6)	(24.9)	(15.5)	143.9
Net assets	101.2	19.1	118.0	33.7	(88.9)	183.1

[1]Developments' land and work in progress write-downs are shown net of joint venture tax of £0.9m

6 Exceptional items

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Pension credit arising from curtailment of benefits in the Kier Group Pension Scheme	**24.3**	-	-
Land and work in progress write-downs:			
Partnership Homes	**(12.2)**	-	(26.6)
Developments - Group	**(1.2)**	-	(1.5)
- Share of joint ventures	**(5.3)**	-	(3.2)
	(18.7)	-	(31.3)
Restructuring of the Partnership Homes division	**(0.8)**	-	(9.5)
Profit on disposal of investment in joint venture	**-**	-	16.2
Exceptional items before tax	**4.8**	-	(24.6)
Taxation			
Share of joint ventures	**1.5**	-	0.9
Group	**(2.8)**	-	9.3
	(1.3)	-	10.2
Exceptional items after tax	**3.5**	-	(14.4)

7 Income tax

The taxation charge for the six months ended 31 December 2008 has been calculated at 28% (June 2008 29%, December 2007 29%) of underlying profit before tax, being profits adjusted for the Group's share of tax in equity accounted joint ventures and excluding exceptional items. This represents the estimated effective rate of tax for the year. Exceptional items are taxed at their underlying rate.

Six months to 31 December 2008	Before exceptional items 31 December 2008 £m	Exceptional items 31 December 2008 £m	Total 31 December 2008 £m	31 December 2007 £m
Profit before tax	**25.3**	**6.3**	**31.6**	44.6
Add: tax on joint ventures	**0.2**	**(1.5)**	**(1.3)**	0.9
Underlying profit before tax	**25.5**	**4.8**	**30.3**	45.5
Current tax	**6.2**	**(3.5)**	**2.7**	10.1
Deferred tax	**0.8**	**6.3**	**7.1**	2.2
Total income tax expense in the income statement	**7.0**	**2.8**	**9.8**	12.3
Add tax on joint ventures	**0.2**	**(1.5)**	**(1.3)**	0.9
Underlying tax charge	**7.2**	**1.3**	**8.5**	13.2
Rate	**28%**		**28%**	29%

Year to 30 June 2008	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	87.1	(23.7)	63.4
Add: tax on joint ventures	1.1	(0.9)	0.2
Underlying profit before tax	88.2	(24.6)	63.6
Current tax	21.5	(5.8)	15.7
Deferred tax	3.0	(3.5)	(0.5)
Total income tax expense in the income statement	24.5	(9.3)	15.2
Add tax on joint ventures	1.1	(0.9)	0.2
Underlying tax charge	25.6	(10.2)	15.4
Rate	29%		24%

8 Dividends

Amounts recognised as distributions to equity holders in the period.

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Final dividend for the year ended 30 June 2008 of 37.0 pence (2007: 40.4 pence)	**13.5**	14.5	14.5
Interim dividend for the year ended 30 June 2008 of 18.0 pence	**-**	-	6.5
	13.5	14.5	21.0

The proposed interim dividend of 18.0 pence (2008: 18.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £6.6m will be paid on 1 May 2009 to shareholders on the register at the close of business on 13 March 2009. A scrip dividend alternative will be offered.

9 Earnings per share

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**21.3**	31.8	47.2
Exclude: exceptional items	**(6.3)**	-	23.7
Tax thereon	**2.8**	-	(9.3)
Underlying earnings	**17.8**	31.8	61.6
Add: amortisation of intangible assets	**1.1**	1.0	2.1
Less: tax on the amortisation of intangible assets	**(0.3)**	(0.3)	(0.6)
Adjusted earnings	**18.6**	32.5	63.1
	million	million	million
Weighted average number of shares used for earnings per share			
- basic	**36.4**	36.0	36.1
- diluted	**36.4**	36.2	36.4
	pence	pence	pence
Earnings per share			
- basic	**58.5**	88.3	130.7
- diluted	**58.5**	87.8	129.7
Underlying earnings per share (excluding exceptional items)			
- basic	**48.9**	88.3	170.6
- diluted	**48.9**	87.8	169.2
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets)			
- basic	**51.1**	90.3	174.8
- diluted	**51.1**	89.8	173.4

10 Property, plant and equipment

During the six months ended 31 December 2008 the Group acquired assets with a cost of £6.2m (2007: £10.2m). Assets with a carrying amount of £0.7m were disposed of during the period (2007: £0.5m) resulting in a gain on disposal of £1.1m (2007: £0.6m), which is included within gross profit.

11 Retirement benefit obligations

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

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Kier Group Pension Scheme			
Opening deficit	**(45.7)**	(30.6)	(30.6)
Charge to operating profit	**(5.0)**	(3.9)	(7.9)
Credit on benefit curtailment	**24.3**	-	-
Employer contributions	**10.2**	9.5	17.1
Actuarial gains/(losses)	**19.9**	(15.8)	(24.3)
Closing surplus/(deficit)	**3.7**	(40.8)	(45.7)
Comprising			
Total market value of assets	**551.4**	535.3	538.4
Present value of liabilities	**(547.7)**	(576.1)	(584.1)
Surplus/(deficit)	**3.7**	(40.8)	(45.7)
Related deferred tax (liability)/asset	**(1.0)**	11.5	12.8
Net pension asset/(liability)	**2.7**	(29.3)	(32.9)

The credit on the benefit curtailment has arisen as a consequence of the Board's decision to restrict pensionable salary increases to the lower of RPI and actual pay increases. The previous valuations were based on salaries increasing at 1.5% over RPI.

11 Retirement benefit obligations continued

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Kier Sheffield LLP			
Opening (deficit)/surplus	**(1.0)**	11.9	11.9
(Charge)/credit to operating profit	**(1.0)**	0.1	0.3
Employer contributions	**0.6**	0.6	1.1
Actuarial gains/(losses)	**3.4**	(3.4)	(14.3)
Closing surplus/(deficit)	**2.0**	9.2	(1.0)
Comprising			
Total market value of assets	**117.8**	140.6	131.0
Present value of liabilities	**(115.8)**	(131.4)	(132.0)
Surplus/(deficit)	**2.0**	9.2	(1.0)
Restriction on pension surplus	**-**	(2.9)	-
	2.0	6.3	(1.0)
Related deferred tax (liability)/asset	**(0.6)**	(1.8)	0.3
Net pension asset/(liability)	**1.4**	4.5	(0.7)

12 Reconciliation of changes in total equity

	Unaudited 31 December 2008 £m	Unaudited 31 December 2007 £m	30 June 2008 £m
Opening equity	**183.1**	183.0	183.0
Recognised income and expense for the period	**21.5**	10.6	20.4
Dividends paid to equity holders of the parent	**(13.5)**	(14.5)	(21.0)
Distributions to minority interests	**(1.0)**	(0.8)	(0.9)
Issue of own shares	**-**	5.5	7.4
Purchase of own shares	**(0.8)**	(5.5)	(5.5)
Share-based payments charge	**-**	1.6	1.0
Deferred tax on share-based payments	**-**	-	(1.3)
Closing shareholders' equity	**189.3**	179.9	183.1

13 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 earnings per share growth targets. Full details of the plan are disclosed in the annual financial statements.

On 25 September 2008 215,739 shares vested, valued at 870.0p in satisfaction of conditional awards made under the LTIP in 2005 (directors 89,579, employees 126,160).

On 17 November 2008 a further grant was made under the LTIP as follows:

Shares awarded	- directors	210,253
	- employees	305,116
		515,369
Share price at grant		775.5p
Exercise price		nil
Option life		3 years
Dividend yield		7.1%
Fair value per option based upon the Black-Scholes model		627.0p

14 Related parties

There have been no significant changes in the nature and amount of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2008.

Statement of directors' responsibilities

The directors confirm that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The directors also confirm that the interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union.

The directors of Kier Group plc are:

P M White (non-executive chairman)
J Dodds (chief executive)
I M Lawson
D E Mattar (finance director)
M P Sheffield
R W Simkin
C V Geoghegan (non-executive)
S W Leathes (non-executive).

Signed on behalf of the Board

J Dodds
D E Mattar

24 February 2009

Independent review report to Kier Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 31 December 2008 which comprises the consolidated balance sheet of Kier Group plc as at 31 December 2008, the related consolidated statements of income, recognised income and expense, cash flows for the six month period then ended and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the DTR of the UK FSA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 December 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

24 February 2009