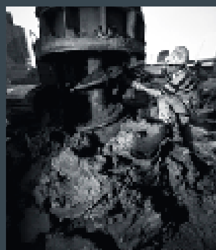
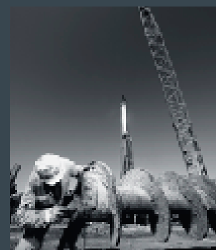
Keller Group plc
Annual Report and Accounts 2006

Knowing Our Ground





KELLER

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Keller Group plc

The Board intends to increase the dividend for the year by 30%, and thereafter by 15% per annum for the foreseeable future, subject to maintaining three times' dividend cover.

Revenue

£920.2m +26%

Highlights

- 20% like-for-like organic growth
- Good first-time contribution from acquisitions made in the year

Profit before tax

£83.7m +72%

Highlights

- Margins increased to a record high of 9.7%, from 7.3% in 2005
- Improvements in all our geographic regions

Earnings per share*

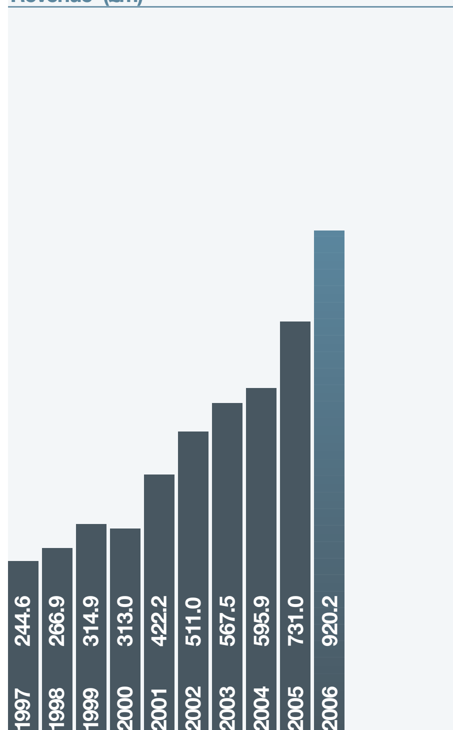
79.0p +89%

Highlights

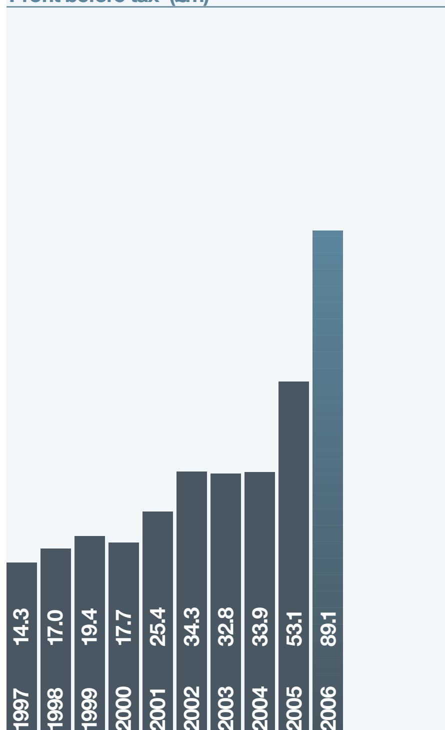
- Earnings per share* have grown at 19% compound annual growth rate since flotation
- 2006 increase in part reflects reduction in underlying tax rate to 37%, from 41% in 2005

*Before the benefit of a one-off tax credit

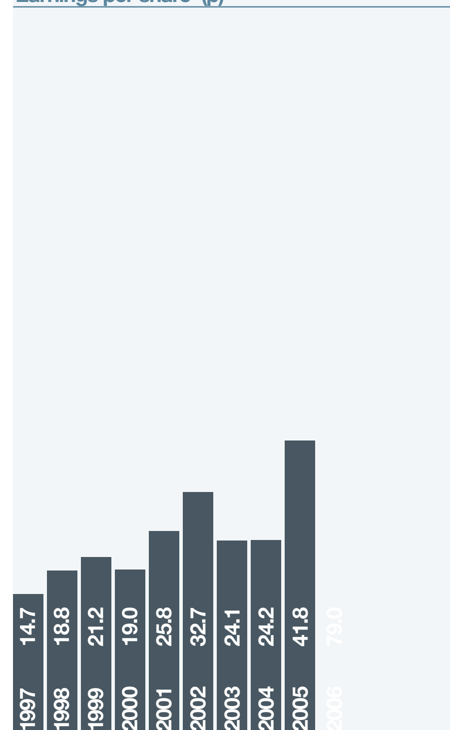
Revenue[1] (£m)



Profit before tax[1] (£m)



Earnings per share[1] (p)



[1] 1997–2003 figures reported under UK GAAP and stated before exceptionals and amortisation of intangibles

2004–2006 figures reported under IFRS

Keller at a Glance

United States

Keller regularly works in around 30 countries across five continents. Our global spread reduces the Group's exposure to national, and even continental, economic and political cycles.

Revenue

£476.9m +19%

Operating profit

£64.1m +52%

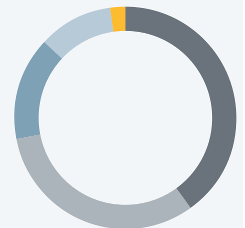
Keller is the market leader in North America where it has had a presence for over 20 years. Today, Keller trades under five well-known local brand names: Hayward Baker, Case, McKinney, Anderson and Suncoast.

Highlights

— Excellent results from all businesses
— Better contract performance
— Broadening of product range
— Very strong geographic reach
— Several large, complex contracts completed

Revenue by Business Unit

- Hayward Baker 40%
- Suncoast 32%
- Case 15%
- McKinney 11%
- Anderson Drilling[1] 2%



[1] Three months only

Number of employees at year end

2,723

United Kingdom

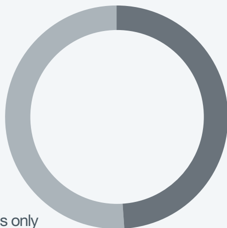
Revenue
£123.2m +38%

Operating profit
£3.2m +320%

In the UK, Keller offers ground engineering expertise through Keller Ground Engineering (KGE) and Phi. It also provides structural refurbishment and repair services to the social housing, car parking and water sectors through Makers.

Highlights
- KGE doubled profits on revenue 40% ahead
  - Foundation support division had an excellent year
  - Very good first-time contribution from Phi
- Makers volumes recovered in 2006 with a break-even result
  - L.B. Greenwich partnering arrangement secured

Revenue by Business Unit
- KGE[1] 49%
- Makers 51%



[1] Including Phi – Nine months only

Number of employees at year end
753

Continental Europe & Overseas

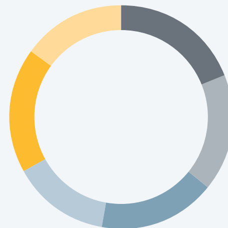
Revenue
£255.0m +24%

Operating profit
£17.9m +41%

Keller Grundbau is based in Germany and is responsible for Keller's operations outside the US, UK and Australia. The company has branches or subsidiaries in around 30 countries in Continental Europe, the Middle East and the Far East.

Highlights
- Excellent overall results
- Revenue in Germany up 10%
- Further increase of market share in France
- Advances made in Eastern Europe
- Very good result from the Middle East

Revenue by Business Unit
- Spain 19%
- Germany 17%
- France 17%
- Eastern Europe 14%
- Other Europe 18%
- Middle/Far East 15%



Number of employees at year end
1,836

Australia

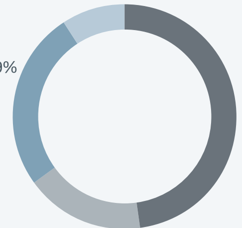
Revenue
£65.1m +75%

Operating profit
£7.0m +289%

In Australia, market leaders Frankipile, Vibro-Pile and Piling Contractors offer a wide range of piling services, while Keller Ground Engineering is introducing specialist technologies used elsewhere in the Keller Group into the Australian market.

Highlights
- Record result, with profits up nearly four-fold
- Piling Contractors acquisition well timed to take advantage of growing sectors
  - Performance of acquisition exceeded expectations
- Further strides in introducing new technologies to the region

Revenue by Business Unit
- Franki 48%
- Vibro-Pile 17%
- Piling Contractors[1] 26%
- Keller Ground Engineering 9%



[1] Five months only

Number of employees at year end
598

Chairman's Statement
Dr Michael West

Results
2006 marked a step change for Keller: building on previous years' successes and taking full advantage of buoyant conditions in most of our global markets, we significantly increased the scale of our operations and achieved our highest-ever margin.

Group revenue rose by 26% to £920.2m (2005: £731.0m), mainly reflecting excellent organic growth. Profit before tax was up 72% to £83.7m (2005: £48.8m) and earnings per share before the benefit of a one-off tax credit grew to 79.0p (2005: 41.8p), in part reflecting a reduction in the underlying tax rate to 37% from 41%. Earnings per share have now grown at a compound annual growth rate of 19% since flotation some 12 years ago. Our operating margin increased to its highest-ever level of 9.7% from 7.3%, reflecting significant improvements in all of our geographic regions.

Cash flow and net debt
The very strong trading result was supported by an increase in cash generated from operations to £98.3m (2005: £73.5m). Net debt at the end of the year stood at £38.6m (2005: £40.9m), which is stated after expenditure of £26.4m on acquisitions (net of cash and debt acquired) and a £4.0m one-off cash contribution into the UK pension scheme. Capital expenditure of £29.4m (2005: £15.7m) was higher than in recent years, as we modernise and expand our equipment fleets in order to take advantage of the strong demand in most of our markets.

Dividends
The Board has reviewed the Group's dividend policy in light of the substantial increase in profits in the last two years. Given these excellent results and our confidence in the Group's future prospects, the Board intends to increase the dividend for the year by 30%, and thereafter by 15% per annum for the foreseeable future, subject to maintaining three times' dividend cover. Whilst our policy is to reward shareholders with progressive dividends and to maintain a comfortable dividend cover, we will also continue to reinvest our cash flow in the growth of the Group, as we have successfully done to date.

The Board is therefore recommending a final dividend of 11.4p per share (2005: 8.2p). This brings the total dividend for the year to 15.6p (2005: 12.0p). The final dividend will be paid on 29 June 2007 to shareholders on the register at 1 June 2007.

Pensions
The UK defined benefit pension scheme was closed for future benefit accrual with effect from 31 March 2006, when active members were transferred to a new defined contribution arrangement. To help reduce the scheme deficit, the Group made a one-off cash contribution of £4.0m in April 2006. The pre-tax deficit reduced to £6.8m at the year end on an IAS 19 basis (2005: £11.9m).

Strategy
In 2006 we made good progress against our strategic objective of further consolidating our global leadership in specialist ground engineering. We made three acquisitions – Phi in the UK, Anderson in the US and Piling Contractors in Australia. The last of these reinforced our leading position in this very strong market. All three acquisitions made excellent first-time contributions and their management and staff have adjusted well to life under Keller's ownership.

We also pressed forward in our programme of introducing new solutions and extending the use of our existing technologies and methods around the world, as is demonstrated by the impressive organic growth rates achieved.

In 2007, we aim to continue to make strategic advances within our core business. We are often seen as a preferred buyer of businesses within our industry, mainly because of what we can offer in return – strong financing, access to new technologies, a supportive culture and an excellent reputation. We will continue to take advantage of the opportunities presented by a highly fragmented industry, both in the US, where we have a long tradition of making good acquisitions, and in other areas where either we are currently under-represented or where we see growth potential. As in the past, our approach will be measured and sure-footed.

"Building success upon success has only been possible because of the skill, commitment and effort which can be found in abundance throughout our businesses."

Dr Michael West, Chairman

People

I am proud of what our employees have achieved and I believe that they, in turn, take pride in belonging to a world-class organisation in which they are well respected, where their contribution is recognised and where they can influence the future. On behalf of shareholders and the Board, I thank all our employees for making 2006 such a successful year.

Outlook

Looking ahead, we see potential for further growth in all of our markets. In the short term, we expect to see some further contraction in the residential sector in the US, at least in the first half of 2007. Our US non-residential order book has recently eased from its peak, which may signal some weakening in this buoyant sector in the second half, although the order book remains at an historically high level. Outside the US, we continue to see plenty of opportunities and we expect to see good growth.

Our Group-wide current order book remains strong, which gives us a sound platform for the year ahead. Our increased scale and strong business model mean we are ideally placed to continue to perform well in our chosen markets and, whilst the outstanding 2006 result is unlikely to be matched this year, we are confident that 2007 will be another good year for the Group.

Dr Michael West, Chairman
28 February 2007

Progress against strategic objectives

Acquisition: Phi, UK
Products: Slope and excavation retaining wall systems
Acquired: April 2006
Consideration: Initial £5.5m, net of acquired cash

Acquisition: Piling Contractors, Australia
Products: Large diameter piling
Acquired: August 2006
Consideration: Initial A$21.4m (£8.7m), net of acquired cash

Acquisition: Anderson Drilling, US
Products: Large diameter piling
Acquired: October 2006
Consideration: Initial $21.7m (£11.8m), including the assumption of debt

Broadening our product range

Dry soil mixing
Swedish technology acquired by acquisition. Further applications in the US as part of the New Orleans levee and canal repair programme.

Composite piles
Developed in France using Keller's proprietary specialist equipment. First-time applications by Keller in Germany and Poland.

Tubular soil-mixed piles
Patented system for excavation walls and underpinnings. First-time offering by Keller in France, Germany and Poland.

Vibro piers
Fast and economic solution to support lighter loads. Launched by Hayward Baker in the US in 2006.

Secant pile walling and continuous flight auger (CFA) piling
Broadening our offering in the US.

WAFFLEMAT system
Another cost-effective alternative to traditional foundation methods for housebuilders. Added to the Suncoast range.

Year at a Glance

Highlight of the Year
In the US, Case completes a complex, two-year project to install water intake shafts in Lake Michigan for the Elm Road Generating Station.

01 January

01.2006
In the US, Hayward Baker is awarded some of the first reconstruction work in New Orleans after Hurricane Katrina.

We soon go on to complete several dry soil mixing contracts in the region, one of which involves working from a barge on the 17th Street Canal, strengthening the soft soils to enable the construction of a new floodgate, which will close off storm surge from Lake Pontchartrain.

02 February

02.2006
In Ukraine, Keller forms a new company in pursuit of its strategy of taking its technologies into new geographic regions. Our Polish company, which over some ten years has grown from a start-up position to become the market leader, will oversee the development of this nascent business in Ukraine.

In India, we are awarded a drilling and grouting contract for a new hydropower scheme, forming part of the Teesta Barrage Project.

03 March

03.2006
In the UK, Keller receives the Best Investor Communication Award at London's PLC awards ceremony.

In Malaysia, grouting works continue on the Stormwater Management and Road Tunnel project. Our works provide stabilisation for the construction of a 13m-diameter bored tunnel over circa 10km in Kuala Lumpur, which will function mainly as a stormwater storage and diversion channel but will also incorporate a 3km motorway.

04 April

04.2006
In the UK, we acquire Phi, a specialist contractor offering slope and excavation retaining wall systems to the UK construction market. The business is soon integrated with Keller's existing earth retaining business, to provide wide national coverage, an extensive range of solutions and greater capacity to undertake major contracts.

In the US, McKinney begins drilling work for the foundations of the new Dallas Cowboys Football Stadium.

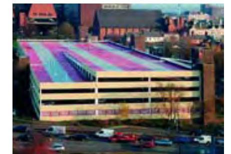
05 May

05.2006
In France, Keller's Group Technology Committee meets in Grenoble. This is a regular forum for sharing knowledge on development projects around the Group and discussing global trends in technology, markets and customer requirements.

In the US, Suncoast's Houston branch wins the Post Tension Institute's Award of Merit in the slab-on-grade category for the Kubena Home project in which they donated the post-tensioning materials and labour to reinforce the foundations for a new home for a local disadvantaged family.

06 June

06.2006
In Europe, we agree a licence to use the Tubular Soil Mixed (TSM) pile, a patented system for excavation walls and underpinnings.



In the UK, Makers wins the International Concrete Repair Institute's Project of the Year 2006 award for the Mayorhold multi-storey car park in Northampton. This recognises the best entry from seven categories of projects, which are judged on uniqueness, use of state-of-the-art methods, use of materials, functionality, value engineering, cost-effectiveness and aesthetics.

“The Piling Contractors acquisition gives Keller good access to growth sectors in Australia.”

07
July

07.2006
In Austria, we start work on a five-month project at the Donau Canal in Vienna, where we install small diameter piles and soilcrete columns as part of the canal wall reconstruction programme. This is also the location for the construction of a new “bathing boat”, for which we install small diameter bored piles to create reinforced concrete foundations.

In the UK, Keller installs 42.3 kilometres of driven piles – its highest-ever volume of driven piles in one month.

08
August

08.2006
In Australia, we acquire Piling Contractors, Australia’s second largest specialist foundations contractor. Its strong links with civil engineering, infrastructure and mining, in which Keller was previously under-represented, are expected to give Keller good access to these growing sectors in Australia.

In Poland, we add to our product range with the introduction of the full displacement pile, as an alternative to pre-cast and drilled piles with which the Polish market is more familiar.

09
September

09.2006

In Saudi Arabia, we complete a contract for soil improvement and landfilling works for Phase III of the Shoiba Power Plant. This has involved us in installing some 180,000 linear metres of stone columns, 300,000m^2 of site clearance and levelling works, and 100,000 m^3 of imported and placed backfill material. The power and desalination complex supplies energy and fresh water to Makkah and Taif, two major cities 100 and 150 kilometres inland.

10
October

10.2006
In the US, we acquire Anderson, a provider of heavy foundations, serving the commercial, industrial and public infrastructure markets on the West Coast.

In the UK, Keller wins two awards for the design and construction of a permanent dewatering scheme to protect an historic tunnel on the Glasgow underground – the Saltire Award for excellence in civil engineering and the Fleming Award for excellence in geotechnical design and construction.

11
November

11.2006
In Croatia, we complete a ground improvement contract for the foundations of a new factory involving the installation of over 2,000 concrete columns to an average depth of around 10 metres. The factory, on a greenfield site in Istria, will deliver insulation products to the growing markets of Southern Europe.

12
December

12.2006
In Germany, the upgrade of a manufacturing plant for a leading sheet aluminium producer demands special skills and a tight deadline. To accommodate heavier machinery, an existing machine bed is underpinned with jet-grouting and micro piles installed to a depth of 17m. Disruption to the plant is minimised by the completion of all these works during the Christmas break.

In the US, Suncoast announces its launch of the WAFFLEMAT – an alternative to traditional foundation methods for homebuilders.

Local Focus — excellent service

Our regional structure means that we can respond quickly to our customers' needs and to changes in our marketplace.

People with Deep Experience — huge knowledge base

Our culture helps us to attract and retain the best people, allowing us to accumulate a wealth of knowledge and experience.

Global Scale — creates opportunity

We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

Broad Markets and Customer Base — reduced risk
Our high proportion of small to medium-sized contracts and the split of market sectors we serve make for a well-balanced business.

Widest Range of Technologies — flexible and cost effective
Having more tools in our kit-bag enables us to solve customers' problems as they emerge and to keep their costs down.

Growth Platform — organic and acquisition growth
We have an excellent long-term track record, built on organic growth and acquisitions.

Keller Group plc

We are an international ground engineering specialist, renowned for providing innovative and cost-effective solutions. Keller has unrivalled coverage in Europe, North America and Australia, where our services are used in commercial, infrastructure, industrial and residential projects.

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Global Scale — creates opportunity

We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

We do not rely on teams of roaming expatriates, but employ local staff who are familiar with the customs, regulations and culture of the region in which they are working.

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Operating Review
Justin Atkinson

This was another outstanding year for the Group, in which all four of our major divisions increased their profitability and significantly improved their operating margins, whilst continuing to gain market share.

In addition to the organic growth generated across all our main markets, the three acquisitions made in 2006 performed even better than we expected at the time of purchase.

Conditions in our major markets

In North America, the public infrastructure and particularly the commercial sector remained extremely buoyant, with 2006 non-residential expenditure as a whole around 13% higher than the previous year[1]. As expected, the residential sector contracted as the year progressed, with housing starts for single-family homes ending the year some 15% down on 2005[2]. Taken as a whole, construction expenditure in the US increased by around 5% year on year[1].

In Europe, Germany experienced a long-awaited recovery in construction output, whilst activity levels in Keller's other main Continental European markets – France, Spain and Eastern Europe – remained high and the UK showed continued improvement.

The Middle East saw high levels of construction activity, whilst the Group's Far East markets once again offered good opportunities. Australia saw a significant increase in expenditure on infrastructure, fuelled in part by the boom in mining and related activities.

Despite robust competition, in 2006 the Group continued to gain market share and to outperform the competition in most of its markets.

Operations
Key performance indicators (KPIs)

In accordance with the EU Accounts Modernisation Directive, now introduced into UK company law, we are including KPIs in this report for the first time. We have selected measures which correspond with the four principal areas of uncertainty for the business, summarised on page 20. We believe these KPIs, shown by principal business area in the divisional reviews which follow, illustrate well the development, performance and position of the business.

In our Social Responsibility Report on pages 24 to 29, we give further KPIs which measure the Group's safety performance. We are pleased that, overall, these demonstrate a further improvement in our safety performance in 2006.

Operations
North America

The 2006 performance of our North American operations surpassed our highest expectations at the start of the year, beating their previous records for revenue and profit. Revenue of £476.9m (2005: £399.9m) was 19% ahead, with operating profit of £64.1m (2005: £42.1m) up by 52%.

1 Data published by the US Census Bureau of the Department of Commerce on 31 January 2007
2 Monthly housing starts published by the National Association of Home Builders in January 2007

KPIs — US

Our growth compared with the growth of our markets

2006	19% (5%)
2005	43% (9%)

Definition and method of calculation
Year-on-year sales growth compared with growth in the total US construction market (in brackets)[1].

Return on net operating assets

2006	48%
2005	35%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[3] (including goodwill acquired through acquisitions).

Operating margin

2006	13.4%
2005	10.5%

Definition and method of calculation
The ratio of operating profit to sales, expressed as a percentage.

Staff turnover[2]

2006	12%

Definition and method of calculation
The number of managerial, professional and technical staff leaving the division in the period, expressed as a percentage of employees in this category.

1 Data published by the US Census Bureau of the Department of Commerce on 31 January 2007
2 Not reported before 2006
3 Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

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Operating Review
Justin Atkinson continued

"In addition to the organic growth generated across all our main markets, the three acquisitions made in 2006 performed even better than we expected at the time of purchase."

Hayward Baker
Hayward Baker had another excellent year across most of its regions, helped in part by a very strong contribution from Donaldson, its September 2005 acquisition. Given the large number of contracts which Hayward Baker undertakes in any one year (almost 1,500 in 2006) it is pleasing to report further improvement in its contract performance. Whilst strong market conditions have assisted, this improvement also reflects a refinement of Hayward Baker's approach to risk management over the past two years.

Amongst the projects worked on by Hayward Baker in 2006 were a number of tunnel-related projects on the West Coast, where the company has a solid track record of performance on similar projects. Specialty grouting services were provided under the $10.2m (£5.2m) Lower North Outfall Sewer Rehabilitation contract, to stabilise the soil above an existing sewer tunnel for the City of Los Angeles; and under the $9.4m (£4.8m) Gold Line contract, to stabilise tunnelling works for the Metro Gold Line Eastside Extension. Also on the West Coast, Hayward Baker contributed to a large and complex off-shore vibro replacement test project in San Francisco Bay for the seismic upgrade of the Bay Area Rapid Transit tube system – the deepest in-service vehicular tube in the world.

The strength of Hayward Baker's product range has been improved with the launch during the year of its vibro piers system, which was developed as a fast and economic treatment for the support of lighter loads. The system is proving popular and looks set to make a growing contribution in 2007 and beyond.

Case
Case had an outstanding year, which saw the completion of several large and technically demanding projects, on time and to budget. These included the two-year $20m (£10.2m) contract to install four shafts to provide intake water for the Elm Road Generating Station near Milwaukee, Wisconsin. Each shaft had a diameter of 4.5 metres and a depth of 45 metres, establishing a record for the largest rock shafts ever installed by Case.

The ability to continually stretch boundaries to deal with ever-more complex ground problems depends not only on the technical skills of our people but also on the power and durability of our equipment. Investment in Case's large drill rigs has further improved productivity and has been an important element in the success of many of the large jobs undertaken in 2006, such as the foundations for the new Goldman Sachs building in New York. Investment in the fleet has also enabled Case to expand its product offering to include secant pile walls – these continuous earth retention walls formed by interlocking, concrete-filled shafts are gaining in popularity in the US, following extensive development and use in Europe.

McKinney
Whilst again working on some 1,500 contracts in the year, McKinney took on more large jobs, increasing by around 50% its average job size to $60,000 (£31,000). It again worked in collaboration with other US Group companies on a number of projects where it was able to bring complementary expertise or resources. The Murano Tower project in Philadelphia, undertaken in joint venture with Case, is one such project, where the requirement for different-sized caissons to support this 42-storey luxury condominium development played to the respective strengths of Case and McKinney.

With its high contract volume, McKinney usually has its fair share of notable projects. In 2006 these included the foundations for the new 100,000-seat Dallas Cowboys Football Stadium and the foundations for several "safe houses" in New Orleans, where the pump operators for the local storm water system will be able to ride out future hurricanes without leaving their work stations.

Anderson
The latest of the Group's US acquisitions, Anderson, had a very good first three months under Keller's ownership. Anderson, purchased for an initial $21.7m (£11.8m) including the assumption of debt, is a provider of heavy foundations, serving the commercial, industrial and public infrastructure markets on the West Coast of the US.

Broad Markets and Customer Base — reduced risk

Our high proportion of small to medium-sized contracts and the split of market sectors we serve make for a well-balanced business.

In 2006, we undertook over 8,000 contracts, with an average contract size of just over £100,000. Our contract portfolio is well balanced between small and large; public and private; and new-build and refurbishment projects.

Widest Range of Technologies — flexible and cost effective

Having more tools in our kit-bag enables us to solve customers' problems as they emerge and to keep their costs down.

Growth Platform — organic and acquisition growth

We have an excellent long-term track record, built on organic growth and acquisitions.

Local Focus — excellent service

Our regional structure means that we can respond quickly to our customers' needs and to changes in our marketplace.

People with Deep Experience — huge knowledge base

Our culture helps us to attract and retain the best people, allowing us to accumulate a wealth of knowledge and experience.

We pride ourselves on having some of the best talent in our industry – acknowledged experts in ground behaviour – who work closely with our customers to find the best and most cost-effective solutions.

Global Scale — creates opportunity

We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

Broad Markets and Customer Base — reduced risk
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Operating Review
Justin Atkinson continued

Anderson represents an excellent strategic fit with our other US foundation businesses and will assist our growth on the West Coast, where we were formerly under-represented in heavy foundations. We are pleased with the progress of its integration into the Group, with a migration to the Group's principal reporting and accounting systems now well under way.

Suncoast

After a very strong first half, the downturn in the residential market was clearly felt in the second half of the year, particularly in the states of California and Arizona, where Suncoast's slab-on-grade revenue was down 32% on the previous second half. This downturn, although severe, compares favourably to a fall of 39% in the number of residential building permits for these states across the same period. In contrast, residential sales in Texas remained resilient for most of the year.

Timely management action, in reducing the headcount and cutting capacity in the face of reduced volumes and increased pricing pressure, helped to protect slab-on-grade margins.

Throughout the year there was strong demand for commercial high-rise products, which resulted in Suncoast reporting revenue slightly ahead of the previous year and a good profit.

In the second half, Suncoast added to its range the WAFFLEMAT system – a new product which is particularly effective in medium expansive soils. Both this and Suncoast's existing slab-on-grade system are alternatives to traditional foundation methods, offering good product substitution opportunities which should enable the business to continue to grow market share over the longer term, notwithstanding the difficult market conditions which Suncoast faces in 2007.

Continental Europe & Overseas

Our Continental Europe & Overseas business reported a very good performance, with revenue of £255.0m (2005: £204.8m) up some 24% on the previous year. It is particularly pleasing that the improvement was so evenly spread across the countries represented within the division. Operating profit was 41% above the previous year at £17.9m (2005: £12.7m).

Our French business had an excellent year, in which its share of the domestic ground improvement market continued to grow, largely in the commercial and residential sectors. Further progress was made in extending our French export markets, with several large contracts awarded across North Africa and in the French West Indies.

In Spain, Keller-Terra saw another substantial increase in revenue in 2006, but with some weakening of its excellent margins. Measures have now been taken to strengthen our resources and key business processes to handle this rapidly growing business, which has trebled its revenue in the four years under Keller's ownership.

KPIs — Continental Europe & Overseas

Our growth compared with the growth of our markets

France	
2006	**38% (7%)**
2005	24% (6%)
Germany	
2006	**10% (3%)**
2005	-11% (-3%)
Spain	
2006	**15% (13%)**
2005	15% (10%)

Definition and method of calculation
Year-on-year sales growth in France, Germany and Spain compared with growth in these major European construction markets (in brackets)[1].

Return on net operating assets

2006	**27%**
2005	21%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[3] (including goodwill acquired through acquisitions).

Operating margin

2006	**7.0%**
2005	6.2%

Definition and method of calculation
The ratio of operating profit to sales, expressed as a percentage.

Staff turnover[2]

2006	**12%**

Definition and method of calculation
The number of managerial, professional and technical staff leaving the division in the period, expressed as a percentage of employees in this category.

1 Estimates of real annual growth plus estimated change in construction prices published by Euroconstruct in December 2006
2 Not reported before 2006
3 Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

Local Focus — excellent service
Our regional structure means that we can respond quickly to our customers' needs and to changes in our marketplace.

People with Deep Experience — huge knowledge base
Our culture helps us to attract and retain the best people, allowing us to accumulate a wealth of knowledge and experience.

Global Scale — creates opportunity
We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

Operating Review
Justin Atkinson continued

In Central and Eastern Europe, our operations in Austria had a very busy year, with projects including ground improvement works for the new Klagenfurt Football Stadium, which will be used as a venue for the 2008 European Championship. Further advances were made in Eastern Europe, particularly Poland, where our organic growth again exceeded that of the market. In addition to extending our range of ground improvement techniques, we undertook some of our first heavy foundations work in this region – a key element of our strategy for growing the business in this area – and made good progress on our first project in Ukraine.

Revenue in Germany grew by around 10% which, combined with increased margins, produced a significantly improved result. Whilst much of the increased demand related to new commercial structures, such as logistics centres, several large infrastructure projects in which we have been involved over recent years, including tunnel stabilisation works in Leipzig and Cologne, helped to maintain high levels of activity throughout 2006.

The Middle East reported a very good result, with an excellent contribution from Saudi Arabia, where we were engaged on a big foundations project for a power station, and good results from Bahrain and UAE. The trend for man-made islands in the Gulf area produced many related contracts, including foundations for large hotel complexes on Palm Jumeirah and for a luxury residential development comprising six 20-storey towers on the Amwaj Islands, off the Bahrain coast.

In the Far East, several ongoing contracts, such as Malaysia's Stormwater Management and Road Tunnel project and development of the Universal Terminal on Jurong Island, Singapore, underpinned a growing stream of work, whilst in India we strengthened our resources in order to benefit from an expected growth in demand for our services.

UK
Revenue in the year was 38% up on the previous year at £123.2m (2005: £89.2m), with an operating profit of £3.2m (2005: loss of £0.3m).

KGE
Keller Ground Engineering (KGE) doubled its previous year's operating profit on revenue some 40% ahead, including around £9m of revenue from Phi, to report its best-ever year.

The foundation support division had an excellent year. Amongst the projects completed was the installation of foundations for a major distribution facility adjacent to the Dartford Crossing in Kent. KGE was able to optimise the original piled scheme by utilising a range of engineering techniques: driven piles in areas of weak soil, with ground improvement by dynamic compaction and vibro replacement in areas of shallow fill overlay. This 'value engineering' delivered substantial reductions in programme time and cost. Another major contract in 2006 was at Mere Park in Surrey, where the site of a former sand and gravel quarry is being redeveloped into an "urban village".

KPIs — UK

Our growth compared with the growth of our markets

KGE	
2006	**40% (5%)**
2005	12% (4%)
Makers	
2006	**36% (5%)**
2005	-34% (4%)

Definition and method of calculation
Year-on-year sales growth compared with the growth in the total UK construction market (in brackets)[1].

Return on net operating assets

2006	**23%**
2005	-10%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[3] (including goodwill acquired through acquisitions).

Operating margin

2006	**2.6%**
2005	-0.3%

Definition and method of calculation
The ratio of operating profit to sales, expressed as a percentage.

Staff turnover[2]

2006 – KGE	**7%**
– Makers	**19%**

Definition and method of calculation
The number of managerial, professional and technical staff leaving the division in the period, expressed as a percentage of employees in this category.

1 Estimates of real annual growth plus estimated change in construction prices published by Euroconstruct in December 2006
2 Not reported before 2006
3 Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

Broad Markets and Customer Base — reduced risk

Our high proportion of small to medium-sized contracts and the split of market sectors we serve make for a well-balanced business.

Widest Range of Technologies — flexible and cost effective

Having more tools in our kit-bag enables us to solve customers' problems as they emerge and to keep their costs down.

Growth Platform — organic and acquisition growth

We have an excellent long-term track record, built on organic growth and acquisitions.

Our tailored solutions are designed to solve a range of site enablement and substructure problems and to deliver to our customers the maximum savings in programme time and cost.

Local Focus — excellent service

Our regional structure means that we can respond quickly to our customers' needs and to changes in our marketplace.

People with Deep Experience — huge knowledge base

Our culture helps us to attract and retain the best people, allowing us to accumulate a wealth of knowledge and experience.

Global Scale — creates opportunity

We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

As the clear market leader in the US and Australia, with prime positions in established European markets and a strong profile in Asia and emerging European markets, we work on some of the most prestigious projects in the world.

Broad Markets and Customer Base — reduced risk
Our high proportion of small to medium-sized contracts and the split of market sectors we serve make for a well-balanced business.

Widest Range of Technologies — flexible and cost effective
Having more tools in our kit-bag enables us to solve customers' problems as they emerge and to keep their costs down.

Growth Platform — organic and acquisition growth
We have an excellent long-term track record, built on organic growth and acquisitions.

Operating Review
Justin Atkinson continued

Backfilling of the former quarry and the installation of some 16,000 linear metres of vibro stone columns has enabled around 350 new homes to be built in difficult ground conditions.

The geotechnical division had a quieter, but on-budget year, performing well on some demanding projects. These included work for the Parliamentary Works Department, improving the foundations beneath Westminster Hall to enable the main public entrance to the Palace of Westminster to be relocated there. The division was also involved in a major new hotel at Heathrow's Terminal 5, where it provided temporary anchor support for the retaining walls to a basement car park.

An already very good year was topped off by an excellent contribution from Phi, the retaining wall specialist acquired in April 2006 for an initial consideration of circa £6m, net of cash acquired. KGE's existing earth retention activities were rebranded and assimilated into Phi and the enlarged business is now fully integrated into the Group.

Makers

The volume shortfall in social housing experienced in 2005 was largely recovered in 2006, to give a break-even result for the year. Social housing projects undertaken during the year included internal refurbishment works under a partnering arrangement with the Epping Forest District Council as part of its Decent Homes programme.

Also, internal and external refurbishment works were carried out at the Coldharbour Estate in the London Borough of Greenwich, where a programme to upgrade some 470 individual properties was completed on time and to budget. The performance on this project helped to secure Makers' position as one of four contractors appointed by the London Borough of Greenwich as their strategic partners for a period of four years.

Australia

Revenue of £65.1m (2005: £37.1m) was some 75% above the previous year, whilst operating profit increased nearly fourfold to £7.0m (2005: £1.8m).

This record result from our Australian businesses included five months' contribution from Piling Contractors, whose performance exceeded our expectations at the time of acquisition. With its strong links with civil engineering, infrastructure and mining, Piling Contractors is taking full advantage of the current boom in these sectors in Australia. One of the largest foundations projects performed in the region in 2006 was a A$40m (£16.3m) contract performed by a joint venture including Piling Contractors to install a diaphragm wall and sheet piling for a bypass near the airport at Tugun on the New South Wales/Queensland border. Another significant contract for Piling Contractors was the Inner Northern Busway project in Brisbane.

Our other Australian businesses also took full advantage of the strong market and completed a higher than average number of large contracts.

KPIs — Australia

Our growth compared with the growth of our markets

2006	75% (8%)
2005	15% (8%)

Definition and method of calculation
Year-on-year sales growth compared with the growth in Australia's construction market (in brackets)[1].

Return on net operating assets

2006	38%
2005	24%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[3] (including goodwill acquired through acquisitions).

Operating margin

2006	10.7%
2005	4.8%

Definition and method of calculation
The ratio of operating profit to sales, expressed as a percentage.

Staff turnover[2]

2006	5%

Definition and method of calculation
The number of managerial, professional and technical staff leaving the division in the period, expressed as a percentage of employees in this category.

1 Data published by Australian Bureau of Statistics in February 2007
2 Not reported before 2006
3 Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

Local Focus — excellent service
Our regional structure means that we can respond quickly to our customers' needs and to changes in our marketplace.

People with Deep Experience — huge knowledge base
Our culture helps us to attract and retain the best people, allowing us to accumulate a wealth of knowledge and experience.

Global Scale — creates opportunity
We have the financial strength, the know-how and the global reach to tackle some of the largest and most demanding projects around the world.

Operating Review
Justin Atkinson continued

These included the Rapid Expansion project at Port Hedland – the 16th project performed by Frankipile for BHP Billiton over the past 15 years – and the foundations for the new Melbourne Convention Centre, which at A$14.5m (£5.9m) was the largest contract ever undertaken by Vibro-Pile.

The ground engineering business, in its third year of operations, continued to make good strides in introducing new techniques to the market. For example, it completed what is thought to be the first compensation grouting contract in the southern hemisphere on the Perth Metro Rail project and introduced Keller's dry soil mixing technology to Australia for a railway upgrade in Newcastle and for road stabilisation at the Waterfront City project in Melbourne.

Securing the future
During our busiest year ever, we have not lost sight of the need to sustain our business by continuing to invest time and money in modernising our equipment fleets, updating our methods of work, recruiting people with great potential, providing training, motivation and a safe work environment for our employees and reinforcing our strong relationships with industry partners – be they customers, consultants, suppliers or standard-setters. We will continue to invest in all these aspects of our business which we see as being crucial to our continued success.

Justin Atkinson, Chief Executive
28 February 2007

Principal risks and uncertainties
The main areas of uncertainty facing the Group relate to market conditions, acquisitions, technical risk and people. These also represent the Group's greatest opportunities and how we manage these risks is a key differentiator between Keller and similar businesses.

Market cycles
Whilst our business will always be subject to economic cycles, market risk is reduced by the diversity of our markets, both in terms of geography and market segment. It is also partially offset by opportunities for consolidation in our highly fragmented markets. Typically, even where we are the clear leader, we still have a relatively small share of the market. Our ability to exploit these opportunities through bolt-on acquisitions is reflected in our track record of growing sales, and doing so profitably, across market cycles. (KPI: our growth compared with the growth of our markets.)

Acquisitions
We recognise the risks associated with acquisitions and our approach to buying businesses aims to manage these to acceptable levels. We try to first get to know a target company, often working in joint venture, to understand the operational and cultural differences and potential synergies. This is followed by a robust due diligence process, most of which is undertaken by our own managers, and we then develop a clear integration plan which takes account of the unique character of the target company. (KPI: return on net operating assets.)

Technical risk
It is in the nature of our business that we are continually assessing and managing technical, and other operational, risks. The controls we have in place, particularly at the crucial stage of bidding for contracts, are discussed in the Internal Control section of the Corporate Governance Report on page 45. Increasingly, given our size, it is unlikely that any one contract is able to materially affect the results of the Group and the average contract value (approximately £113k in 2006) is important in this respect. Our ability to manage technical risks will generally be reflected in our profitability. (KPI: operating margin.)

People
The risk of losing, or not being able to attract, good people is key – and never more so than in buoyant markets. We pride ourselves in having some of the best professional and skilled people in the industry, who are motivated by the Group's culture and the opportunities for career growth. The processes for training and developing our employees are discussed in the Social Responsibility Report on page 29. (KPI: staff turnover.)

Broad Markets and Customer Base — reduced risk
Our high proportion of small to medium-sized contracts and the split of market sectors we serve make for a well-balanced business.

Widest Range of Technologies — flexible and cost effective
Having more tools in our kit-bag enables us to solve customers' problems as they emerge and to keep their costs down.

Growth Platform — organic and acquisition growth
We have an excellent long-term track record, built on organic growth and acquisitions.

In the last ten years, we have delivered compound annual growth rates in sales and operating profit of 15% and 22% respectively. Going forward, we see potential for further long-term growth in all our markets.

Financial Review
James Hind

Trading results
2006 was an outstanding year for Keller, with revenue, profits and margins all at record highs. All four geographic regions reported significant improvements in both revenue and margins.

Group revenue increased by 26% in the year to £920.2m, mainly reflecting very strong organic growth in most of the Group's main markets, together with a good contribution from acquisitions. Movements in reported revenue and profits were not significantly influenced by fluctuations in foreign currency exchange rates. The average US dollar exchange rate against sterling was US$1.84, compared to US$1.82 in 2005, while the average euro exchange rate was €1.47, versus €1.46 in 2005. Stripping out the effects of acquisitions and currency movements, the Group's 2006 revenue was 20% up on 2005.

Operating profit was £89.1m, up from £53.1m in 2005. Unsurprisingly, this increase was largely due to the US, which represents over half the Group in terms of both revenue and profits. However, results in Continental Europe & Overseas were also up significantly, while Australia increased its operating profit almost four fold, helped by the acquisition of Piling Contractors in August 2006. Taken together, the UK businesses returned to respectable profitability after recording a small loss in 2005. Makers reported a break-even result in the year as a whole. Adjusting for the effect of acquisitions and currency movements, the Group's operating profit was 59% up on 2005.

Operating margins increased to a record high of 9.7%, from 7.3% in 2005 which itself was a record at the time. This substantial increase reflects significant improvements in all our geographic regions, together with, as reported at the interims, the impact of one-off claims income totalling £5m received in the US in the first half.

Interest
The net interest charge increased from £4.3m in 2005 to £5.4m in 2006, with the benefit of lower average borrowings being more than offset by higher interest rates, particularly on US dollar-denominated debt. The majority of the Group's borrowings are US dollar-denominated, in order to provide a hedge against the Group's US dollar-denominated net assets, and bear interest at floating rates. The average interest rate paid on US dollar borrowings increased from 4.3% to 6.1%. Interest cover is very comfortable at around 20 times EBITDA.

Tax
The Group's underlying effective tax rate was 37%, down from 41% in 2005. This decrease is largely due to the benefit from an intra-Group financial restructuring during the year, as a result of which the Group no longer incurs taxable losses (after central costs and interest) in the UK. It is now anticipated that prior year UK tax losses, which total nearly £13m, can be utilised against future UK taxable profits.

Consequently, the Group has recognised a £3.8m deferred tax asset in respect of these losses, which has resulted in a one-off tax credit in the 2006 income statement.

The Group's underlying effective tax rate remains high compared to most UK, domiciled businesses, reflecting the fact that most of the Group's profits are earned in higher tax jurisdictions, in particular the US where the effective federal and state tax rates total nearly 40%.

Earnings and dividends
Earnings per share (EPS) before the one-off tax credit increased by 89% to 79.0p. Including the benefit of the one-off tax credit, EPS was 84.8p. Given these excellent results and our confidence in the Group's future prospects, the Board intends to increase the dividend for the year by 30% and thereafter, by 15% per annum for the foreseeable future, subject to maintaining three times' dividend cover.

The Board is therefore recommending a final dividend of 11.4p per share. The total dividend paid out of 2006 profits will be 15.6p. This is covered 5.1 times by EPS before the one-off tax credit.

Cash flow
In 2006, the Group continued its excellent record of converting profits into cash. Net cash inflow from operations, stated after a £4.0m one-off contribution into the Group's UK defined benefit pension scheme, was £98.3m, representing 94% of the Group's EBITDA. Year-end working capital, at £54.8m, was only £4.3m higher than the previous year, despite the three acquisitions in the year and the Group's organic growth.

> “Operating margins increased to a record high of 9.7%, from 7.3% in 2005, which itself was a record at the time, reflecting significant improvements in all our geographic regions.”
>
> **James Hind, Finance Director**

Capital expenditure was £29.4m, about twice the level of recent years. This significant increase was necessary following the Group’s substantial growth which, historically, had not been matched by increases in capital expenditure.

The additional capital has been targeted either at geographies which have excellent growth prospects or where a lack of available equipment was constraining the ability to undertake work. After proceeds from the sale of property, plant and equipment, net capital expenditure in the year was £27.4m.

Financing

Year-end net debt decreased to £38.6m from £40.9m at 31 December 2005, despite the additional capital expenditure and spending £26.4m on acquisitions (net of cash and debt acquired). Net debt at the year end was less than 0.4 times EBITDA. Based on net assets of £159.1m, gearing was 24%, down from 35% at the beginning of the year.

The Group’s debt and committed facilities mainly comprise a US$100m private placement, repayable US$30m in 2011 and US$70m in 2014, and an £80m syndicated revolving credit facility expiring in 2011. At the year end, the Group also had other committed and uncommitted borrowing facilities totalling around £40m. The Group therefore has sufficient available financing to support our strategy of growth, both through organic means and targeted, bolt-on acquisitions.

Pensions

The Group has defined benefit pension arrangements in the UK, Germany and Austria. The last actuarial valuation of the UK scheme, which has been closed to new members since 1999, was as at 5 April 2005. At this date, the market value of the scheme’s assets was £17.3m and the valuation concluded that the scheme was 61% funded on an ongoing basis.

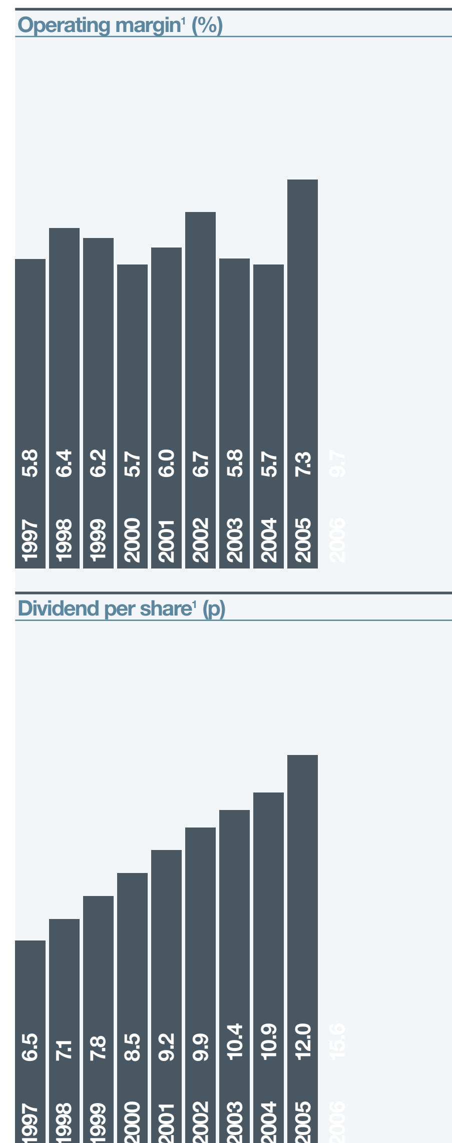
The Group closed its UK defined benefit scheme for future benefit accrual with effect from 31 March 2006 and the existing active members transferred to a new defined contribution arrangement. To help reduce the deficit in the scheme, the Group made a one-off cash contribution of £4.0m in April 2006 and agreed to double its regular contributions to £1.2m a year with effect from January 2006. The level of contributions will be reviewed at the next actuarial valuation, which is due at April 2008.

The year-end 2006 IAS 19 valuation of the UK scheme showed assets of £25.7m, liabilities of £32.5m and a pre-tax deficit of £6.8m.

In Germany and Austria, the defined benefit arrangements only apply to certain employees who joined the Group prior to 1998. There are no segregated funds to cover these defined benefit obligations and the respective liabilities are included on the Group balance sheet.

All other pension arrangements in the Group are of a defined contribution nature.

James Hind, Finance Director
28 February 2007



[1] 1997–2003 figures reported under UK GAAP and stated before exceptionals and amortisation of intangibles
2004–2006 figures reported under IFRS

Social Responsibility

The Board is responsible for ensuring that Group companies have effective systems for managing significant social, environmental, ethical and health and safety risks, which are appropriate to the geographies in which they operate. The Board's responsibility is discharged through the Managing Directors of the Group's businesses.

Environment

Contributing to a better environment

Keller's solutions are often contributors to environmental projects. These include land reclamation schemes, soil erosion control, flood control, decontamination or containment of contamination, the preparation of brownfield sites and, of growing importance, foundations for renewable energy facilities. Examples of some such projects undertaken during the year are given below.

The Group's acquisition of Phi in April 2006 added some new environmentally friendly solutions to the Group's product offering. Phi's soft-faced reinforcing systems, which represent about 75% of their sales, are an alternative to sheet piling which reduce the need to remove soil and to import expensive fill, whilst the use of softwood type timber – a renewable source – has a reduced carbon footprint compared with alternative solutions.

Renewable energy

In Germany, we worked on the foundations for several wind farms: one of these was the Borkum West Wind Park, 45 kilometres offshore in the North Sea, where we performed drilling works to a depth of 50m – at times through storm force seven conditions. This farm is destined to accommodate 12 five-megawatt wind turbines taller than the Eiffel Tower, which will deliver electricity to German households by 2008. Another wind energy project was the Kittlitz Wind Park in Brandenburg, where Keller used vibro compaction and vibro replacement techniques to improve the soil conditions on a former coal mining site, for the construction of five new wind power plants.

Amongst the many other renewable energy projects in which we were involved last year were: a new storage tank facility for bio-diesel fuel at Galena Park, Texas, where Hayward Baker installed vibro-piers; compaction grouting works to correct settlements at a newly constructed ethanol plant in Iowa; foundations for solar field panels at the new Eldorado Solar Generating Station at Boulder City, Nevada; and vibro stone columns to support what is heralded as the country's biggest biomass power plant near Lockerbie in Scotland, capable of generating 44 megawatts of power annually – enough for 70,000 homes. In India, we are providing drilling and grouting services for one of the new hydropower schemes, forming part of the Teesta Barrage Project.

In Austria and Germany, Keller has been involved in a number of projects using geothermal power for heating systems. In such projects, Keller's foundations have been designed to accommodate absorber tubes, which conduct heat from the earth into the buildings.

Dam remediation and flood control

Group companies continued their involvement in a variety of dam remediation schemes, forming part of a worldwide focus on upgrading major dams to prevent premature failure due to soil erosion and earthquake. For example, we are performing some two million m^3 of sand compaction as part of a flood control and irrigation project at the Oued Harka dam in Tunisia and have constructed a 25m deep slurry wall for a new dam in Algeria's Mostaganem region.

Over the past few years, our companies have been heavily involved in flood protection schemes in Poland, Slovakia and Austria, where our works have included improving the core sealing of river dykes to reduce their permeability and increasing the height of the dykes to improve their overall stability. Last year Hayward Baker performed two extensive dry soil mixing operations as part of the levee repair programme in New Orleans: treatment of the soft soils surrounding the proposed 17th Street Canal floodgate will allow the floodgate structure to resist high pressures associated with storm surge; and some 4,500 columns, each 40 feet in length and 2.6 feet in diameter, were installed for soil stabilisation below the proposed West Bank Levee P24.

Keller undertakes ground improvement works on the site of a former coal mine in Brandenburg, Germany, for the construction of the Kittlitz Wind Park.

Decontamination and control of contamination

Our US businesses were involved in a number of decontamination projects last year. For example, in Memphis, Tennessee we undertook a pilot study which looked into using jetting techniques to install deep permeable reactive barriers for the remediation of ground water contamination. As part of the Mott Haven Schools Complex clean-up project in New York's Bronx district, Hayward Baker undertook jet grouting and tie-backs to support a retaining wall, to allow contaminated materials to be excavated. And, also in the state of New York, we installed a jet grouting base stabilisation mat for the new Sawmill Creek Pump Station, as part of a larger overall project to clean up Onondaga Lake in Syracuse, one of the most polluted lakes in the US.

Elsewhere, Keller Ground Engineering in Australia installed a hydraulic barrier to control the contamination of groundwater caused by coal gasification processes at a former gasworks site at Armidale. In the UK, contamination removal formed part of a packaged solution for a housebuilder developing the site of a former sand and gravel quarry.

Environmental management systems

Many of our site activities do have environmental impacts – most notably, emissions of noise, dust and slurry, and the use of specialist products such as grouts. Risk assessments are carried out at the start of all projects and where hazards are identified, steps are taken to mitigate the risks. We have a continuous programme of trying to reduce environmental impacts by, for example, selecting new plant with reduced noise emissions, researching the viability of new, more benign materials and seeking better ways of capturing waste from drilling.

For example, where possible, KGE in the UK is introducing the use of grout based on 'bentonite plus', instead of pulverised fuel ash (PFA) the use of which is provoking increasing concerns. 'Bentonite plus', which has significant bulk-handling advantages, was used last year in a large mine infill job, as part of the project to reopen Scotland's Stirling-Alloa-Kincardine rail line.

Makers' clients are increasingly asking for materials to come from sustainable sources. To ensure that it can comply with these requirements, Makers has actively sought to appoint suppliers who can provide materials, particularly timber, from sustainable and traceable sources.

Environmental management systems

Two of our commonly used techniques – driven cast-in-situ (DCIS) piling and vibro concrete columns (VCC) – are displacement systems, which do not generate spoil from the ground. Where the ground contains toxic matter, displacement systems ensure that the materials stay in situ, rather than having to be transported (typically by road) to a treatment or disposal site.

Our vibro replacement technique, which we use even more frequently than DCIS piling and VCC, uses only inert stone in its processes and is usually an alternative to more expensive concrete or steel piling options. The carbon content of this technique is considerably less than piling options. Like our DCIS piling and VCC systems, it is a displacement system and offers the same advantage of creating no spoil.

A further benefit of our vibro systems is that we are increasingly employing recycled aggregates where and when we are able to source them. In England, for example, KGE used around 40,000 tonnes of recycled aggregate, representing some 30% of its requirement in 2006.

Social Responsibility

Working with the community

Many projects in which Group companies are involved are located in remote areas, away from local populations and, therefore, there is usually little impact on, or relationship with, the local community.

Occasionally, we find ourselves working in environmentally sensitive areas, which call for specific methods of working. This was the case in the Hunter region of Australia, where we worked during the year on the Sandgate rail grade separation project. A new section of track was to be installed between the existing track and environmentally sensitive wetlands. Many threatened local species had the potential to be affected by the upgrade project but Keller was able to offer a ground improvement solution using dry soil mixing technology which was unlikely to disturb the local wildlife.

The one business in the Group which does have a major impact on the communities in which it works is Makers which, through its social housing refurbishment schemes, has significant interfaces with residents and community groups. Makers has an experienced, in-house resident liaison team which manages these interfaces on a project-by-project basis.

Sponsorship and donations

Makers' Social Housing Partnering team, working closely with the London Borough of Greenwich is helping to bring the game of rugby league to the local community by sponsoring a local schools' initiative organised by the Greenwich Admirals, London and North Kent's top amateur rugby league club, and supporting related community events. Similarly, in the London Borough of Tower Hamlets, where Makers undertook the renewal of kitchens and bathrooms to bring two estates up to the Government's "Decent Homes" standard, Makers sponsored Christmas lunches for the estates' well-established OAP clubs.

For most of our businesses, however, support for local community projects is indirect – by, for example, sponsoring or supporting through matched funding the efforts of employees who are involved in charitable or community projects.

These are many and varied and in 2006 included a mission trip to Malawi, where one of our UK employees was involved in building a playground and doing some light construction work at one of the day care centres for AIDS orphans.

Regular evening meetings, surgeries and workshops are held with residents throughout the duration of a contract, giving an opportunity to openly discuss the works and to gain useful feedback on how best to deliver the project with the residents in occupation. Periodic newsletters are issued to keep all residents up to date with the activities on site and the progress of the works. This dialogue is backed up by an interactive "Community" section on the Makers website.

Health and safety

Principles of health and safety

The Board is committed to providing a healthy and safe working environment for all employees and others affected by Keller's works. The Managing Director of each division is responsible for ensuring that formal health and safety policies are developed, published and maintained and that organisational arrangements for health and safety management are established and maintained in the businesses within their division. Responsibility for implementing the health and safety policies rests with the line management of each business, whilst each individual employee has a responsibility for complying with the policy. As a minimum standard, local policies and organisational arrangements for health and safety must include compliance with all legal requirements and the creation of a safety awareness culture by encouraging employee involvement in health and safety matters.

"The Board is committed to providing a healthy and safe working environment for all employees and others affected by Keller's works."

Safety performance in 2006
The Board reviews the health and safety performance of the operating companies on a quarterly basis, as well as monitoring leading indicators, such as hours spent on safety training and safety improvement initiatives. Where possible, the Board compares safety performance against industry norms. Standard measures of safety performance, as published by national safety regulators, vary from country to country. Within the Group, Keller uses the accident frequency rate (AFR) and accident incident rate (AIR) to track the safety performance of its businesses, where AFR is the number of accidents per 100,000 hours worked and AIR is the number of accidents per 100,000 employees and where "accidents" comprise fatalities, major injuries (as defined by the Health and Safety Executive) and injuries involving more than three days' absence. The AFRs and AIRs for 2006 and 2005 are shown below:

AFRs and AIRs

	2006 AFR	2006 AIR	2005 AFR	2005 AIR
USA, excluding Suncoast	**0.56**	**1,009**	0.62	1,081
Suncoast	**0.47**	**1,075**	0.14	340
Continental Europe & Overseas	**2.93**	**5,684**	2.05	4,369
UK – Keller Ground Engineering (KGE)	**1.99**	**3,971**	1.91	3,811
UK – Makers	**0.31**	**616**	0.32	642
Australia	**1.98**	**4,549**	2.29	5,092

These KPIs show an improvement in the 2006 safety performance of the US foundation businesses, Australia and Makers in the UK, whilst the performance of KGE in the UK deteriorated slightly and that of Suncoast and Continental Europe & Overseas was disappointing. However, the long-term trend across the whole Group is one of improvement, with total reportable accidents falling from 226 in 2003 to 146 in 2006 in spite of an increase in both the average number of employees and the number of hours worked.

US
In the US, a construction company's safety record, relative to other businesses, is usually measured through the experience modification rating (EMR). A low score indicates a good safety record. In 2006, the combined EMR for our US foundation businesses was 0.59, against an industry standard rating of 1.00 and a previous year's rating of 0.63.

Case, Hayward Baker, McKinney, Anderson and Suncoast each employ full-time safety professionals who co-operate on safety improvement initiatives such as sharing results of incident investigations; running tailored safety programmes; developing consistent safety audit criteria, which enables them to conduct peer reviews; and establishing a joint supplier programme for safety supplies and bought-in training, to improve consistency and buying power.

Safety training and safety audits continue to be a main priority for our US safety managers. Specific safety initiatives introduced in 2006 included:

- Certified Crane Operator certification for McKinney's crane operators;
- "Speak Up/Listen Up" – an employee focused safety feedback process – and updating of the injury and illness prevention programme at Anderson;
- a new fleet and driver safety programme, to help prevent and reduce motor accidents at McKinney; and
- a safety website for Suncoast employees to give guidance and raise the level of safety awareness throughout the organisation.

Social Responsibility

Continental Europe & Overseas
In our Continental Europe & Overseas operations, a procedure for on-site health and safety forms part of the quality management system. In addition, operating units are required to respect and comply with all local regulations. Training courses are held on a regular basis in order to improve risk awareness on site. Each business unit employs a safety officer, either on a full- or part-time basis, according to the business need and local regulations. Performance is monitored by the divisional head office in Germany and compared to national standards, where these are available.

UK
In the UK, KGE saw an increase in reportable accidents in 2006 to 14 (2005: 13). However, both the average number of employees and the cumulative hours worked were up by around 11% on the previous year, resulting in an AIR of 3,971 compared with an average AIR of 2,758 for members of the Federation of Piling Specialists, the most appropriate comparator group.

During 2006, KGE obtained accreditation for its safety management schemes for Health & Safety (OHSAS 18001) and for Environmental Management (ISO 14001). Safety initiatives during the year included the introduction of random drugs testing, increased training for plant operators to reduce the dependency on ladders on sites and a revised procedure for loading lorries to eliminate the use of ladders, thus enabling compliance with the new Working at Height Regulations.

For 2007, KGE has targeted a reduction of 10% in reportable accidents, based on a three-year rolling average.

Makers recorded four reportable accidents in the year, the same number as in the previous year. Again, the average number of employees and the cumulative hours worked were up on the previous year, so that its AIR reduced to 616, which compares very favourably with a construction industry average, excluding fatalities, of 2,041.

In 2006, Makers introduced several British Safety Council (BSC) training packages, including the Level 1 Certificate in Health & Safety, Level 2 Risk Assessment and Level 2 Certificate in Supervising Staff. These are being delivered in-house by the Health & Safety team, and assessed externally by the BSC. In addition, the new Makers Integrated Management System for quality and safety management was implemented. This meets the OHSAS 18001 standard for safety management and external accreditation for the system is being sought.

Once again, there were no HSE prosecutions or enforcement notices brought against either of our UK businesses in 2006 and there are none pending.

Australia
The key safety objective for our operations in Australia is to achieve zero lost-time injuries. Apart from Piling Contractors, which Keller acquired in August 2006 and for which data will be included in future reports, the Australian businesses recorded ten lost-time injuries, down from 11 in 2004. These statistics should be viewed in the context of increases in the average number of employees and the cumulative hours worked which were up by 8% and 10% respectively. The AFR and AIR were much improved on 2005 and remain below the national construction industry average.

> "Management development includes a strategic programme offered each year to some 25 managers from across the Group."

Following the appointment of a new Safety Manager for Frankipile towards the end of 2005, a new company Safety Policy and Procedures Manual was adopted and placed on the company intranet, with training for all employees, including management, on the implementation of the manual completed in the first half of the year. Since then, the Safety Manager has been working with his counterparts in Piling Contractors and Vibro-Pile to formulate consistent approaches to safety statistical reporting and policies; and to establish a forum where health and safety issues can be regularly discussed and addressed across the Australian business units.

Safety training has been stepped up and many safety procedures have been formalised or standardised across the Australian businesses. We believe the new focus on safety and fresh initiatives introduced during the year have been at the heart of the improvements seen in 2006.

Employees

Throughout the year our businesses have continued to use a variety of media and forums for communicating with their employees including company newsletters, consultative councils, results presentations, suggestion schemes and informal channels, such as company-wide social events.

In addition to job-specific and safety training, in which considerable resource is invested by all our businesses, the Group has various management development programmes. These comprise a number of modules, which are offered locally in the main centres of operation; a strategic programme offered each year to some 25 managers from across the Group; and the further development of individuals at, or just below, Board level through executive programmes at international business schools.

It is our policy to employ and train disabled people wherever their skills and qualifications allow and when suitable vacancies are available. Disabled employees are encouraged to undertake training and career development to prepare them for promotion. Should existing employees become disabled, every effort is made to find appropriate work and training if appropriate.

Board of Directors
Executive Directors

1. Justin Atkinson
Chief Executive
Joined the Group in 1990. Group Financial Controller from 1995–99. Appointed Finance Director in 1999, Chief Operating Officer in 2003 and Chief Executive in 2004. Age 46.

3. Bob Rubright
Managing Director, North America
Joined the Group in 1984 with the Hayward Baker acquisition. Appointed President, Hayward Baker in 1994 and President, Keller Foundations Inc. in 1998. Appointed to the Board in 2003. Age 55.

2. James Hind
Finance Director
Joined the Group in 2003 from D S Smith plc, where he was Group Financial Controller. Previously with Coopers & Lybrand, including two years in their New York office advising on mergers and acquisitions. Age 42.

4. Dr Wolfgang Sondermann
Managing Director,
Continental Europe & Overseas
Joined the Group in 1986. Appointed Deputy Managing Director, Continental Europe & Overseas in 1998 and Managing Director in 2001. Appointed to the Board in 2003. Age 56.

Board of Directors
Non-Executive Directors

8.

9.

10.

5. Dr Michael West
Non-executive Chairman
Joined the Group in 1964. Chief Executive of Keller Group of companies 1982–95. Became a Director of Keller Group plc in 1990. Appointed Chairman in 1995 and became Non-executive Chairman upon retirement in 1997. Chairman of the Nomination Committee. Age 69.

8. Keith Payne
Non-executive Director
Appointed to the Board in 1999. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. From 1991 to 1996 he was an Executive Director of BET plc with responsibility for finance, planning and development. Age 64.

6. Pedro Lopez Jimenez
Non-executive Director
Appointed to the Board in 2003. Mr Lopez Jimenez is Chairman of GTCEISU Construcción S.A., Chairman of Union Fenosa S.A., and a Non-executive Director of ACS Actividades de Construcción y Servicios S.A. Also a director of a number of other Spanish businesses, Mr Lopez Jimenez was Secretary of State for Public Works and Urban Development in the Spanish Government between 1977 and 1979 and Chairman of ENDESA between 1979 and 1982. Age 64.

9. Gerry Brown
Non-executive Director
Appointed to the Board in 2001. Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Mr Brown is Chairman of Biocompatibles plc, Quintiles Transnational Europe and NFT Distribution Holdings. He is also a Non-executive Director of Forth Ports plc and was formerly Chairman of Upol Ltd. His executive career included directorships with Exel Logistics plc, TDG plc and Tibbett & Britten plc. Age 62.

7. Richard Scholes
Non-executive Director
Appointed to the Board in 2002. Member of the Remuneration, Audit and Nomination Committees. Mr Scholes was a Director at Dresdner Kleinwort from 1986 to 2001. He is a Non-executive Director of Bodycote International Plc, Chaucer Holdings Plc, Crest Nicholson Plc and Marshalls plc. Age 61.

10. Dr Kevin Bond
Non-executive Director
Reappointed to the Board in 2003. Member of the Remuneration, Audit and Nomination Committees. Non-executive Director of Keller from 1999 until 2002, when he was appointed Director of the Police Standards Unit. Chief Executive of Kelda plc from 1995 to 2000, then Managing Director of the European Division of Earth Technologies Inc. until September 2002. Chairman of CityWest Homes and EFKON Road Pricing Limited. Age 56.

Keller Group plc
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Directors' Report

The Directors present their report, together with the audited accounts for the year ended 31 December 2006.

Business review and principal activities

Keller Group plc is a holding company. Its principal subsidiary undertakings are engaged in specialist ground engineering, providing the construction industry around the world with an extensive range of problem-solving techniques and services.

A review of the Group's progress and prospects may be found on pages 1 to 29.

Markets and competition

Ground engineering markets worldwide tend to be highly fragmented. Keller has a small number of international competitors, who operate in many of the same markets as Keller. The vast majority of Keller's competitors, however, operate at a national, or regional, level, reflecting the local nature of the construction industry. Many are family-owned businesses offering a narrow product range or occasionally a single product. In the UK and parts of Continental Europe, several of the large general contractors have their own, in-house ground engineering capability, whereas in the US, Keller's biggest market, and in Australia general contractors generally outsource to specialist ground engineering sub-contractors, such as Keller. Conditions in our major markets during 2006 are discussed in the Operating Review on page 11.

Strategy

Our overriding strategic objective is the further consolidation of our global leadership in specialist ground engineering services, through a combination of organic growth and targeted acquisitions. There are three key elements to our strategy:

- transfer of technologies and methods within our current geographic regions;
- expansion into new geographic regions; and
- acquisition and development of new technologies and methods.

Progress against our strategic objective during the year is summarised in the Chairman's Statement on page 4 and in the Operating Review on pages 11 to 20.

Principal risks and uncertainties and key performance indicators

The key business risks and uncertainties affecting the Group are considered to relate to market cycles, acquisitions, technical risk and people. These are explained more fully in the Operating Review, where the key performance indicators, measuring our success in managing these risks, are also shown.

Results and dividends

The results for the year, showing a profit before taxation of £83.7m (2005: £48.8m), are set out on page 48.

The Directors recommend a final dividend of 11.4p per share to be paid on 29 June 2007, to members on the register at the close of business on 1 June 2007. An interim dividend of 4.2p per share was paid on 1 November 2006. The total dividend for the year of 15.6p (2005: 12.0p) will amount to £10.3m (2005: £7.8m).

Future outlook

The outlook for the Group can be found on page 5.

Directors

The names and biographical details of the Directors who hold office at the date of this report are given on pages 30 and 31. All served throughout the year. The interests of the Directors in the share capital of the Company are shown in the Remuneration Report on page 40.

The Company's Articles of Association indemnify the Directors out of the assets of the Company in the event that they suffer any loss or liability in the execution of their duties as Directors, subject to the provisions of the Companies Act 1985 (as amended).

Retirement and re-election

Dr Bond, Mr Hind and Dr Sondermann will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election. Dr West, having served on the Board as a Non-executive Director for nine years, will also offer himself for re-election at the Annual General Meeting.

Substantial shareholdings

At 28 February 2007, the Company had been informed of the following interests in the Company's issued ordinary share capital:

	Number of shares held	Percentage of issued share capital
Barclays PLC	9,803,400	14.9%
J P Morgan Chase & Co.	6,032,294	9.2%
Goldman Sachs Group Inc.	3,941,797	6.0%
GTCEISU Construcción, S.A.	3,691,985	5.6%
Legal & General Investment Management	2,613,516	3.9%
Deutsche Bank AG	2,522,138	3.8%
AXA Rosenberg Investment Management	2,168,702	3.3%

Apart from these interests, the Company has not been notified, and is not aware, of any other person who is directly or indirectly materially interested in 3% or more, or who has a non-material interest in 10% or more, of the issued ordinary share capital of the Company.

Directors' Report
continued

Research and development
Keller has a reputation for engineering excellence and innovation. The Group has in-house design, development and manufacturing facilities where staff work closely with site engineers continually to develop new and more effective methods of solving problems of ground behaviour. Much of the specialised equipment we use is designed and built by Keller.

Management of financial risks
Currency risk
The Group faces currency risk principally on its net assets, of which a large proportion is in currencies other than sterling. The Group aims to reduce the impact that retranslation of these assets might have on the balance sheet, by matching the currency of its borrowing, where possible, with the currency of its assets, thereby creating a hedge.

The Group manages its currency flows to minimise currency transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the Group relate to repatriation of profits and intra-Group loan repayments. The Group's foreign exchange cover is executed primarily in the UK. At 31 December 2006 there were no material forward exchange contracts outstanding (2005: None).

The Group does not trade in financial instruments nor does it engage in speculative derivative transactions.

Interest rate risk
Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose and term of the financing.

Credit risk
The Group's principal financial assets are bank and cash balances and trade and other receivables. These represent the Group's maximum exposure to credit risk in relation to financial assets. This risk is managed by limiting the aggregate amount of exposure to any such institution or customer by reference to their credit rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

Corporate governance
This is the subject of a separate report on pages 42 to 45 which details the Company's compliance with the Combined Code on Corporate Governance as appended to the Listing Rules of the UK Listing Authority. The Remuneration Report is set out on pages 35 to 41.

Going concern
The accounts have been prepared on the going concern basis as the Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

Payments to suppliers
The Group's policy, in relation to all of its suppliers, is to settle terms of payment when agreeing the terms of the transaction and to abide by those terms, providing that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code or statement on payment practice.

At 31 December 2006 the Group had 59 days' (2005: 66 days') purchases outstanding.

Political and charitable contributions
No contributions were made to any political party during the year. Donations made by the Group in the UK for charitable purposes were £7,000 (2005: £5,000).

Social responsibility
The Group's approach to employee involvement, disabled persons, health and safety and the environment are discussed in the Social Responsibility Report on pages 24 to 29.

Annual General Meeting
The full wording of the resolutions to be tabled at the forthcoming Annual General Meeting is set out in the Notice of Annual General Meeting on page 78.

Disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Auditors
In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as Auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Jackie Holman
Secretary
28 February 2007

Remuneration Report

Introduction

In preparing this report, the Committee has complied with the Directors' Remuneration Report Regulations 2002 (the Regulations) and the Combined Code on Corporate Governance (the Code) as appended to the Listing Rules of the UK Listing Authority. A resolution to approve the report will be proposed at the forthcoming Annual General Meeting of the Company.

The Regulations require the Auditors to report to the Company's members on the "auditable part" of the Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information. Within the unaudited section, the report deals with the remuneration policy that is to be followed from 1 January 2007.

Unaudited information

Remuneration Committee

The Company has established a Remuneration Committee (the Committee) in accordance with the recommendations of the Code. The names of members of the Committee are given below. The Committee was chaired by Mr Brown, and all members served on the Committee, throughout the year.

Committee members

E G F Brown (Chairman)
Dr K Bond
K F Payne
R T Scholes

The Committee's terms of reference are available on the Group's website and on request from the Company Secretary. The principal function of the Committee is to agree the framework and policy for the remuneration of the Group's senior management and to determine, on behalf of the Board, the remuneration packages of the Executive Directors. The Committee is also responsible for monitoring the level and structure of remuneration for senior management and for annually reviewing and noting remuneration trends across the Group. As more than 85% of the workforce is based outside the UK, remuneration packages for the Group's senior management will vary according to local market norms and conditions.

No member of the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. No Director plays a part in any discussion about his own remuneration. As discussed in the Corporate Governance Report on pages 42 to 45, the Board considers Mr Brown, Dr Bond, Mr Payne and Mr Scholes to be Independent Directors.

The frequency of, and attendance at, meetings of the Committee during the year is shown in the Corporate Governance Report on page 43.

In determining the Executive Directors' remuneration for the year, the Committee has consulted Dr West, the Chairman and Mr Atkinson, the Chief Executive about its proposals, except (in the case of Mr Atkinson) in relation to his own remuneration.

During the year, the Committee has received advice on Executive Directors' remuneration from New Bridge Street Consultants LLP (NBSC), who were appointed by the Committee and who have also advised the Company on the valuation of share-based payments.

Remuneration policy and arrangements

The objective of the remuneration policy is to ensure that members of the Group's senior management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

Executive Directors are assessed individually so that their remuneration is directly related to their performance over time and a significant proportion of their remuneration package is performance related.

The Committee has adopted the principle that basic salary should be set broadly in line with the median for executives in a role of comparable standing and that Executive Directors should be able to achieve total remuneration at the market upper quartile level when justified by superior performance.

Since the year end, the Committee has reviewed the remuneration of the Executive Directors, two of whom are based in the UK and two overseas. NBSC benchmarked their total remuneration packages against those of executives with similar roles in comparator companies in the lower half of the FTSE 250 and also, in the case of the two overseas Directors, in their local markets. In addition, the packages of the UK- and US-based Directors were compared with those of executives in similar roles within the same sector. Following this review, some adjustments have been made to the packages to improve further the link between reward and performance and to ensure that the packages are market competitive. The details of the component parts of the package are set out below.

Elements of remuneration

There are five main elements of the remuneration package for Executive Directors and selected senior managers: basic salary, performance-related annual bonus, long-term incentive arrangements, pension arrangements and other benefits.

i) Basic salary

Salaries for Executive Directors are determined by the Committee before the start of each year and when an individual changes position or responsibility.

In line with the principle that basic salary should be set broadly in line with the median, and following the benchmarking exercise carried out by NBSC, the Committee has approved basic salaries from 1 January 2007 which are in line with the median for the lower half of the FTSE 250 and consistent with sector and local market benchmarks, where applicable. Whilst the Company is at the lower quartile of the lower half of the FTSE 250 in terms of market capitalisation, it is at the upper quartile in terms of turnover and profits. Furthermore, the UK business accounts for just 13% of turnover and thus the level of the overseas business activities, spread across more than 30 countries, means that the Group roles involve a greater degree of complexity than for most other UK-listed companies of a similar size. In approving the 2007 salaries for Executive Directors, the Committee has also taken into account remuneration levels and trends across the Group.

Remuneration Report
continued

ii) Performance-related annual bonus

The maximum annual cash bonuses for Executive Directors are set by the Committee and are subject to stretching targets linked to financial performance in the year and to individual performance against objectives set by the Committee. The performance-related bonuses are not pensionable.

In line with the principle that Executive Directors should be able to achieve total remuneration at the market upper quartile level when justified by superior performance, the Committee has increased the maximum bonus potential from 1 January 2007 to 150% of basic annual salary. As in 2006, bonus representing up to 100% of salary will only become payable in full where very strong financial performance has been delivered. Any bonus earned in excess of 100% of salary will only become payable for truly exceptional performance (above the level of performance required for 100% of salary to be payable) and will be deferred for a period of three years. The deferred element of the bonus may be satisfied in shares or in cash, at the discretion of the Committee and will be subject to continued employment over the deferral period.

The Group has just delivered two years of exceptional performance and the Committee is satisfied that now is an appropriate time to increase the annual bonus potential, as it will provide an even greater focus on the achievement of stretching operational performance targets from a very high base set in 2006. The deferred portion will provide a longer-term element to the bonus with a good retention mechanism. It is also recognised that base salary levels (from which the annual bonus will be calculated) are no higher than market median.

The 2007 bonus for Mr Atkinson and Mr Hind will be linked to the achievement of:

- Group earnings per share (EPS), profit before tax (PBT) and average net debt targets; and
- personal, task-based objectives.

The 2007 bonus for Mr Rubright and Dr Sondermann will be linked to the achievement of:

- divisional operating profit and average net debt targets;
- Group EPS and PBT targets; and
- personal, task-based objectives.

For the past two years Mr Rubright has participated in a US Retention Bonus Plan, which has provided an additional cash bonus in light of the truly exceptional performance of the US division. The plan is designed to motivate and retain individuals who are considered to be critical to the continued success of the participating businesses. Payments into the plan vest in four equal amounts at the end of years three, four, five and six, subject to continued employment with the Group.

Actual financial performance targets for 2007 are considered to be commercially sensitive and accordingly they are not disclosed in this report.

iii) Long-term incentive arrangements

The Company's long-term incentive arrangements are intended to encourage Executive Directors and selected senior managers to focus on long-term, strategic corporate objectives and to further align the interests of management and shareholders.

Under the Performance Share Plan, approved by shareholders in 2004, performance share awards may be granted each year to selected senior managers. The rules limit annual awards to 100% of an executive's basic annual salary, unless the Committee determines that exceptional circumstances exist, eg to facilitate the recruitment or retention of a key executive, in which case an award may be granted up to 200% of the relevant executive's annual basic salary. Grants to Executive Directors in 2007 will be made over shares worth 100% of salary.

Performance share awards are released to executives after three years, subject to demanding performance conditions being met. Currently, 50% of a performance share award is conditional on targets based on growth in EPS and the remaining 50% is based on relative total shareholder return (TSR) against companies comprising the FTSE All-Share Index. Under this approach, in order for awards to vest in full, there must be strong financial performance as well as stock market outperformance.

The Committee has considered carefully the range of growth targets for awards in 2007.

In prior years, the EPS growth range has been RPI + 4% – RPI + 9% for between 40% and 100% of the award to vest. The Committee has decided to reduce the threshold level of vesting from 40% to 30% of the award but to keep the range unchanged, notwithstanding the fact that 2006 was an outstanding year for the Company with an all-time high level of earnings.

Two changes have been made to the TSR vesting schedule. First, the threshold level of vesting has been reduced from 40% to 30%. Second, the level required for maximum vesting has been reduced from an upper decile level of performance (ie top 10% of the companies) to upper quintile level of performance (ie top 20% of the companies). These two changes are considered by the Committee to broadly offset each other so that the impact on the value of the awards is neutralised.

The following EPS growth targets will apply for awards granted in 2007:

For half of the shares subject to a performance share award EPS growth (average over 3 years)	Proportion of shares that vest
Less than RPI + 4% pa	0%
RPI + 4% pa	30%
RPI + 9% pa	100%
Between RPI + 4% pa and RPI + 9% pa	Between 30% and 100% on a straight line basis

For awards granted in 2007, TSR performance will be compared to the companies comprising the FTSE All-Share Index at the date of grant.

For the other half of shares subject to a performance share award	Proportion of shares that vest
Relative TSR (after 3 years)	
Below median ranking	0%
Median ranking	30%
Upper quintile ranking	100%
Between median and upper quintile ranking	Between 30% and 100% on a straight line basis

Performance is measured over a single three-year period. To the extent that the targets are not achieved, the award lapses. At the end of the performance period, TSR calculations are independently performed for the Committee by NBSC.

Since 2001, the Group has had an Inland Revenue approved executive share option plan and an unapproved executive share option plan (the 2001 Plans). No options have been granted under the 2001 Plans since 2003 and the Committee has no current intention of granting further options under these Plans.

iv) Pension arrangements

Mr Atkinson and Dr West are both members of the Keller Group Pension Scheme (the Scheme). The Scheme provides a pension based upon a percentage of final salary and pensions for dependants on death in service or following retirement. Dr West retired in 1997 and is currently receiving a pension under the Scheme.

The table on page 40 shows Mr Atkinson's accrued Scheme benefits. The Scheme closed to future benefit accrual with effect from 31 March 2006, since when Mr Atkinson has received a salary supplement in lieu of a Company contribution to an alternative pension arrangement. The salary supplement is not taken into account in determining bonuses or any other form of remuneration.

Dr Sondermann is a member of the defined benefit pension arrangements established by Keller Grundbau GmbH.

Dr Sondermann is also a member of a defined contribution scheme, as are Mr Hind and Mr Rubright.

v) Other benefits

Other benefits for Executive Directors comprise a car and payment of its operating expenses and fuel, or car allowance; private health care; life assurance; and long-term disability insurance.

Service contracts

In accordance with general market practice, it is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may be necessary occasionally to offer longer initial notice periods to attract new directors, provided that the notice period shall reduce to one year after the initial period.

Service contracts between the Company (or other companies in the Group*) and individuals who served as Executive Directors at any time during the year are summarised below:

Director	Date of service contract	Notice period
J R Atkinson	11 October 1999	12 months
J W G Hind	16 May 2003	12 months
R M Rubright	8 August 1977 (modified by a memorandum of employment dated 12 May 2003)	12 months
Dr W Sondermann	12 February 1998 (modified by a memorandum of employment dated 5 March 2004)	12 months

* Mr Rubright's service contract is with Hayward Baker Inc.
Dr Sondermann's service contract is with Keller Holding GmbH.

In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic annual salary plus the fair value of benefits to which the Directors are contractually entitled for the unexpired portion of the notice period. The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service agreement of any Executive Director.

The Board may allow Executive Directors to accept external appointments, provided that the Company retains any related remuneration. In accordance with the Code, the Board will not agree to a full-time executive taking on more than one non-executive directorship, nor the chairmanship of such a company. None of the Executive Directors held external appointments during 2006.

During the year, £142,000 was paid to Mr T Dobson, £20,000 was paid to Mr K Kirsch and £18,000 was paid to Mr M W C Martin, all former Directors of the Company, for services provided to Group companies.

Remuneration Report
continued

Non-executive Directors

All Non-executive Directors have specific terms of engagement, the dates of which are set out below. For Non-executive Directors appointed before 1 October 2003, the initial appointment period is 12 months and thereafter the appointment is subject to three months' notice by either party. Subsequent appointments are for an initial three-year period, and thereafter are subject to review by the Nomination Committee, unless terminated by either party on three months' notice. There are no provisions for compensation payable in the event of early termination.

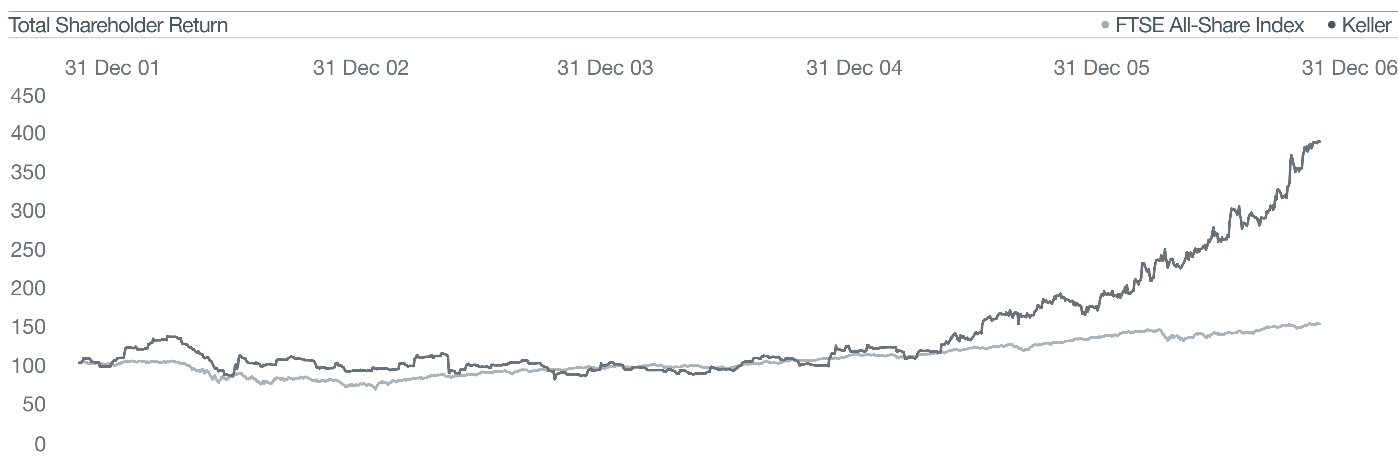
Director	Date of engagement letter
Dr K Bond	24 November 2003 (renewed 25 January 2007)
E G F Brown	18 January 2002
P J Lopez Jimenez	21 January 2003
K F Payne	11 June 1999
R T Scholes	8 February 2002
Dr J M West	8 June 1998

The determination of the Non-executive Directors' remuneration, including that of the Chairman, has been delegated by the Board to the Executive Directors, within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The fees paid to Non-executive Directors in the year, shown on page 39, are inclusive of the additional work performed for the Company in respect of membership of the Board Committees. Non-executive Directors cannot participate in any of the Company's short- or long-term incentive arrangements.

Relative performance

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All-Share Index. This index has been selected because it best reflects the Company's international nature and size. The graph looks at the value, by the end of 2006, of £100 invested in Keller on 31 December 2001 compared with the value of £100 invested in the FTSE All-Share Index.

Total Shareholder Return



Remuneration Report
continued

Audited information
Directors' emoluments for the year ended 31 December 2006

	Basic salary 2006 £000	Fees 2006 £000	Benefits 2006 £000	Annual bonus 2006 £000	Other 2006 £000	Total emoluments 2006 £000	Total emoluments 2005 £000
Executive							
J R Atkinson	325	–	15	325	73	738	426
J W G Hind	225	–	11	225	–	461	315
R M Rubright	206	–	9	206	272	693	600
Dr W Sondermann	187	–	10	187	–	384	277
Non-executive							
Dr K Bond	–	35	–	–	–	35	28
E G F Brown	–	40	–	–	–	40	30
P J Lopez Jimenez	–	35	–	–	–	35	28
K F Payne	–	40	–	–	–	40	30
R T Scholes	–	35	–	–	–	35	28
Dr J M West	–	95	20	–	–	115	101
	943	280	65	943	345	2,576	1,863

The table above includes a salary supplement of £73,000 paid to Mr Atkinson in lieu of a Company pension contribution from 1 April 2006 and referred to in the pensions section below.

Also included in the table is a payment of £272,000 (2005: £275,000) made into the US Retention Bonus Plan on behalf of Mr Rubright. This was to recognise the outstanding performance delivered by the US business in 2006 and to reflect the importance of retaining this key individual, who is seen as critical to the continued success of the US business, in an exuberant labour market. The payments will vest in four equal amounts after years three, four, five and six, subject to Mr Rubright continuing in employment with the Group.

The fees amounting to £35,000 shown above for Mr Lopez Jimenez were paid to Fapindus, S.L. in respect of his services.

A maximum annual cash bonus of 100% of basic annual salary was set for the Executive Directors for the year ended 31 December 2006. The 2006 bonus targets for Mr Atkinson and Mr Hind were linked to the achievement of Group EPS, PBT and average net debt targets (up to 65% of salary); to separate PBT targets relating to the UK businesses (up to 10% of salary); and to personal, task-based objectives (up to 25% of salary). The 2006 bonus targets for Mr Rubright and Dr Sondermann were linked to the achievement of Group EPS and PBT targets (up to 20% of salary); to divisional operating profit and average net debt targets (up to 65% of salary); and to personal, task-based objectives (up to 15% of salary).

The baselines for the 2006 Group financial performance targets at which no bonus was payable (as adjusted for actual 2006 exchange rates) were PBT of £39.0m, EPS of 32.0p and average net debt of £65.0m. The financial performance targets attracting maximum bonus are considered commercially sensitive and are not, therefore, disclosed.

In light of the exceptionally strong financial performance delivered in 2006, maximum bonuses were payable.

Remuneration Report
continued

Directors' shareholdings
The interests in the issued ordinary share capital of the Company of Directors holding office at the year end were:

Director	**At 31 December 2006 Ordinary shares**	At 31 December 2005 Ordinary shares
J R Atkinson	**44,329**	44,329
E G F Brown	**5,000**	5,000
P J Lopez Jimenez*	**3,691,985**	5,341,985
K F Payne	**10,739**	10,739
R M Rubright	**40,000**	40,000
R T Scholes	**5,000**	5,000
Dr W Sondermann	**62,230**	22,230
Dr J M West	**1,348,000**	1,568,000

* Shares are registered in the name of GTCEISU Construcción, S.A., a connected person of Mr Lopez Jimenez.

There have been no changes in Directors' shareholdings between the end of the financial year and 28 February 2007.

Entitlements under the Performance Share Plan may be satisfied by ordinary shares provided by the Keller Group plc Employee Benefit Trust (the Trust). As potential beneficiaries under the Trust, the Directors are deemed to be interested in the shares held by the Trust which, at 31 December 2006, amounted to 54,253 ordinary shares (2005: 62,253).

Directors' pension rights
In 2006, a pension of £150,000 was paid to Dr West, who retired in 1997, under the Keller Group Pension Scheme.

Company pension contributions for Directors to defined contribution schemes were as follows:

Director	**2006 £000**	2005 £000
J W G Hind	**41**	22
R M Rubright	**14**	12
Dr W Sondermann	**30**	9
Total	**85**	43

Mr Atkinson was paid a salary supplement of £73,000, in lieu of a Company pension contribution, for the period 1 April to 31 December 2006, following the closure to future benefit accrual of the Keller Group Pension Scheme (the Scheme).

The changes during the year in the accrued pension entitlements of Mr Atkinson under the Scheme and of Dr Sondermann under the defined benefit pension arrangements operated by Keller Grundbau GmbH are shown in the table below. The amount shown as accrued pension at the end of the year is that which would be paid annually on retirement, based on service to the end of the year.

The increase in the year in the value of Mr Atkinson's accrued pension under the Scheme reflects the removal from 6 April 2006 (A day) of the Earnings Cap, which previously limited benefits payable under the Scheme. Prior to this, his benefits in excess of the Earnings Cap represented an unfunded liability of the Company. Since A day, benefits up to the lifetime allowance can be paid through the Scheme.

Director	Transfer value of accrued benefit at beginning of year £000	Transfer value of accrued benefit at end of year £000	Increase in transfer value during the year less member contributions £000	Accrued pension at end of year £000	Increase in accrued pension including inflation £000	Increase in accrued pension excluding inflation £000	Transfer value of increase in accrued pension excluding inflation less member contributions £000
J R Atkinson	324	986	661	76	22	20	259
Dr W Sondermann	48	53	5	3	0.2	0.2	2

Remuneration Report
continued

Directors' interests in 2001 Option Plans and 2004 Performance Share Plan

	Options held at 1 January 2006	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 31 December 2006**	Exercise price	Date from which exercisable	Expiry date
J R Atkinson								
Unapproved Plan								
14 May 2001	**25,000**	–	–	–	**25,000**	231.5p	14/05/04	13/05/11
13 March 2003	**72,521**	–	–	–	**72,521**	251.0p	13/03/06	12/03/13
Approved Plan								
13 March 2003	**2,479**	–	–	–	**2,479**	251.0p	13/03/06	12/03/13
Performance Share Plan								
25 June 2004	**37,500**	–	–	–	**37,500**	100.0p*	25/06/07	24/06/14
8 March 2005	**47,000**	–	–	–	**47,000**	100.0p*	08/03/08	07/09/08
7 March 2006	**–**	60,000	–	–	**60,000**	100.0p*	07/03/09	06/09/09
J W G Hind								
Unapproved Plan								
29 August 2003	**37,756**	–	–	–	**37,756**	245.0p	29/08/06	28/08/13
Approved Plan								
29 August 2003	**12,244**	–	–	–	**12,244**	245.0p	29/08/06	28/08/13
Performance Share Plan								
25 June 2004	**25,000**	–	–	–	**25,000**	100.0p*	25/06/07	24/06/14
8 March 2005	**32,000**	–	–	–	**32,000**	100.0p*	08/03/08	07/09/08
7 March 2006	**–**	40,000	–	–	**40,000**	100.0p*	07/03/09	06/09/09
R M Rubright								
Unapproved Plan								
14 May 2001	**20,000**	–	–	–	**20,000**	231.5p	14/05/04	13/05/11
13 March 2003	**50,000**	–	–	–	**50,000**	251.0p	13/03/06	12/03/13
Performance Share Plan								
25 June 2004	**25,000**	–	–	–	**25,000**	100.0p*	25/06/07	24/06/14
8 March 2005	**32,000**	–	–	–	**32,000**	100.0p*	08/03/08	07/09/08
7 March 2006	**–**	40,000	–	–	**40,000**	100.0p*	07/03/09	06/09/09
Dr W Sondermann								
Unapproved Plan								
14 May 2001	**15,000**	–	15,000	–	**–**	231.5p	14/05/04	13/05/11
13 March 2003	**25,000**	–	25,000	–	**–**	251.0p	13/03/06	12/03/13
Performance Share Plan								
25 June 2004	**25,000**	–	–	–	**25,000**	100.0p*	25/06/07	24/06/14
8 March 2005	**32,000**	–	–	–	**32,000**	100.0p*	08/03/08	07/09/08
7 March 2006	**–**	40,000	–	–	**40,000**	100.0p*	07/03/09	06/09/09

* All awards under the Performance Share Plan have an exercise price of 100.0p per exercise.
The market value of the shares on the dates of grant were: 25 June 2004: 215.0p; 8 March 2005: 296.5p; and 7 March 2006: 445.0p.

In the three-year performance period ended 31 December 2006, average EPS growth was in excess of 70% per annum and TSR ranked in the top decile of the Construction & Building Materials Index, the TSR comparator group for the 2004 grant. Accordingly, the performance share awards granted on 25 June 2004 will be exercisable in full from 25 June 2007.

The market value of the shares at 31 December 2006 was 899.5p and the range during the year was 385.0p to 900.5p.

There have been no variations to the terms and conditions or performance criteria for share options or performance share awards during the financial year.

On behalf of the Board

Gerry Brown
Chairman
Remuneration Committee
28 February 2007

Corporate Governance

The Company is committed to maintaining high standards of corporate governance. The Board recognises that it is accountable to the Company's shareholders for corporate governance and this statement describes how the Company has applied the principles of the Combined Code on Corporate Governance (the Code) as appended to the Listing Rules of the UK Listing Authority. Throughout the year to 31 December 2006, save as otherwise explained in the paragraph headed "Compliance with the Code" on page 45, the Board believes that the Company was in compliance with the provisions of the Code.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. The Board has a schedule of matters reserved for its approval which is kept under review.

Specific responsibilities of the Board include: setting Group strategy and approving the annual budget; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; reviewing the Group's systems of internal controls and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the health and safety performance of the Group; approving appointments to the Board; and approving policies relating to Directors' remuneration and Directors' contracts.

Board papers and other relevant information are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. This information is supplemented by information specifically requested by the Directors from time to time.

The roles of the Chairman and Chief Executive

There is a clear division of responsibilities between Dr West as Non-executive Chairman and Mr Atkinson who, as Chief Executive, is the Director ultimately responsible for the running of the Group's business.

The Chairman is responsible for the following matters pertaining to the leadership of the Board:

- ensuring appropriate Board composition;
- ensuring effective Board processes;
- setting the Board's agenda;
- ensuring that Directors are properly briefed in order to take a full and constructive part in Board and Board Committee discussions;
- ensuring effective communication with shareholders; and
- ensuring constructive relations between Executive and Non-executive Directors.

The Chief Executive is responsible for the following matters:

- formulating strategy proposals for the Board;
- formulating annual and medium-term plans charting how this strategy will be delivered;
- apprising the Board of all matters which materially affect the Group and its performance, including any significantly underperforming business activities; and
- leadership of executive management to enable the Group's businesses to deliver the requirements of shareholders:
  - ensuring adequate, well-motivated and incentivised management resources;
  - ensuring succession planning; and
  - ensuring appropriate business processes.

Directors and Directors' independence

The Board currently comprises the Chairman, five other Non-executive Directors and four Executive Directors.The names of the Directors at the date of this report, together with their biographical details, are set out on pages 30 and 31. All these Directors served throughout the year. The Board included four Independent Non-executive Directors throughout the year.

The Board considers all the Non-executive Directors, with the exceptions of Dr West and Mr Lopez Jimenez, to be independent of management. Dr West was Chief Executive from 1982 to 1995 and is not, therefore, considered to be independent of management. Mr Lopez Jimenez is associated with GTCEISU Construcción, S.A. (GTCEISU), which is a 49% shareholder in Keller-Terra S.L. and a 6% shareholder in Keller Group plc. Whilst the Board considers Mr Lopez Jimenez to be independent in character and judgement, he is not deemed to be independent of management under the Code, in view of GTCEISU's shareholding in Keller Group plc.

The Non-executive Directors constructively challenge and help to develop proposals on strategy and bring strong independent judgement, knowledge and experience to the Board's deliberations. Mr Payne is the Senior Independent Director.

There is an agreed procedure for individual Directors to obtain independent professional advice and all Directors have unrestricted access to the Company Secretary and Chairman. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters.

The Chairman has no other significant professional commitments.

The Board had eight formal, scheduled meetings during the year. A table showing attendance at these meetings, and at meetings of Board Committees, is set out on page 43.

One of these Board meetings was held in North America, giving the Board an opportunity to visit operational locations, to receive presentations from executives within the US businesses and to meet around 30 of the Group's most senior US management. Another Board meeting was held in Poland, where the Board was able to hear about the Group's development and prospects in Eastern Europe, where the Group has a presence in several countries, and to visit the site of a flood defence project, an important area of growth for the Group in this region.

In addition, during the year the Chairman met with the Non-executive Directors without the Executive Directors present and there was regular informal contact between the Directors as required.

Professional development

On appointment, Directors are provided with information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board Committees and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives to develop the Directors' understanding of the business.

Throughout their period of office, Non-executive Directors are continually updated on the Group's business, its markets, corporate social responsibility matters and other changes affecting the Group and the industry in which it operates, including changes to the legal and governance environment and the obligations on themselves as Directors.

Performance evaluation and re-election

The Board has a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors. Changes to Board processes which were introduced in response to the first formal Board evaluation exercise in 2004 are now well embedded, albeit subject to ongoing review and refinement.

After two years of undertaking a questionnaire-based evaluation exercise with the assistance of an independent adviser, last year the Board felt it appropriate to adopt a more open, discussion-based approach. The main focus of the discussion was the Board's effectiveness in discharging its primary responsibilities relating to strategy, risk management, financial performance and management succession. The Board also reviewed the frequency of, and time allocated to, Board meetings and the provision of information to the Board. This discussion also encompassed a review of the effectiveness of the Board Committees, in place of the questionnaire-based self evaluation exercises carried out in previous years by the Audit and Remuneration Committees.

During the year, the Chairman assessed the performance of the other Directors. Led by the Senior Independent Director, the Non-executive Directors met without the Chairman, to evaluate his performance against pre-agreed criteria.

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment and, subject to satisfactory performance evaluation, to re-election thereafter at intervals of no more than three years.

Relations with shareholders

Where possible, throughout the year, the Company meets with and makes presentations to institutional investors in the UK, Continental Europe and the US. These include meetings following the announcement of the annual and interim results with the Company's largest institutional shareholders on an individual basis. The Senior Independent Director is available on request to meet with shareholders should they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director have not resolved, or for which such contact is inappropriate. All major shareholders have the opportunity on request to meet new Non-executive Directors on appointment. On a regular basis, the Board is apprised of the views of the investment community through the circulation of investor perception surveys, brokers' research notes and feedback from analysts.

The Annual General Meeting is normally attended by all the Directors and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended. The Notice of the Annual General Meeting, detailing all proposed resolutions, is posted to shareholders at least 20 working days prior to the meeting.

The Group maintains a corporate website, www.keller.co.uk, containing a wide range of information of interest to investors, including presentations to institutional investors and analysts. The website is updated with all formal communications to the investment community immediately following their release through a recognised news service.

These efforts to maintain good communications with our shareholders were recognised in the Best Investor Communications Award, which the Company received at the March 2006 PLC awards ceremony.

Board committees

The number of scheduled Board and Committee meetings attended by each Director during the year was as follows:

	Scheduled Board meetings (8)	Remuneration Committee meetings (2)	Audit Committee meetings (4)	Nomination Committee meetings (2)
Dr J M West (Chairman)	8	n/a	n/a	2
J R Atkinson (Chief Executive)	8	n/a	n/a	2
J W G Hind (Finance Director)	8	n/a	n/a	n/a
R M Rubright (Executive Director)	7	n/a	n/a	n/a
Dr W Sondermann (Executive Director)	8	n/a	n/a	n/a
E G Brown (Non-executive Director)	6	2	4	2
Dr K Bond (Non-executive Director)	8	2	3	2
P J Lopez Jimenez (Non-executive Director)	5	n/a	n/a	n/a
K F Payne (Non-executive Director)	8	2	4	2
R T Scholes (Non-executive Director)	8	2	4	2

Figures in brackets indicate the maximum number of scheduled meetings in the period.

Corporate Governance
continued

Committee terms of reference

The terms of reference for the Remuneration, Audit and Nomination Committees are kept under regular review and are available on the Company's website.

Remuneration Committee

The Remuneration Committee was chaired throughout the year by Mr Brown, an Independent Non-executive Director. The other members during the year, all of whom are also Independent Non-executive Directors, are shown on page 35.

This Committee is responsible for agreeing with the Board the framework and policy for the remuneration of the Group's executive management and for determining the remuneration packages of the Executive Directors. The Directors' Remuneration Report is set out on pages 35 to 41.

Nomination Committee

The Nomination Committee is chaired by Dr West, except if it is dealing with succession to the chairmanship of the Board. The other members during the year were Mr Atkinson, Dr Bond, Mr Brown, Mr Payne and Mr Scholes. The Nomination Committee's role is to monitor the composition and balance of the Board and recommend to the Board the appointment of new Directors. Where appointments to the Board are under consideration, the Committee will normally employ external search consultants, except in respect of executive roles for which internal candidates have already been identified.

The Committee met twice during the year to consider the Board composition. It approved the renewal of Dr Bond's appointment as a Non-executive Director, which appointment had been made in October 2003 for an initial period of three years and was thereafter subject to review by the Nomination Committee.

Audit Committee

Dr Bond, Mr Brown, Mr Payne and Mr Scholes, all of whom are Independent Non-executive Directors, were members of the Committee throughout the year. The Committee is, and was throughout the year, chaired by Mr Payne. The Board has satisfied itself that at least one member of the Committee has recent and relevant financial experience.

This Committee meets at least three times a year at which meetings the Company's Auditors attend. At least once a year, the Committee meets privately with the external Auditors. The Committee assists the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

Since the start of 2006, the Audit Committee has discharged its responsibilities by:

- reviewing the Group's draft financial statements prior to Board approval and reviewing the external Auditors' reports thereon;
- reviewing the Group's trading update announcements prior to release;
- reviewing the independence of the external Auditors and reviewing and approving the audit fee;
- reviewing the external Auditors' strategy for the audit of the Group's accounts;
- reviewing an annual report on the Group's system of internal control and its effectiveness and receiving regular updates on key risk areas of financial control;
- reviewing management's assessment of the key risks facing the Group and the related controls in place to mitigate those risks; and
- reviewing the need for an internal audit function.

In considering the need for an internal audit function, the Committee took account of the Group's broad geographic spread and cultural diversity and recognised that the Group's key risks lie in its tendering processes and in the operational controls over the performance of work, which a traditional, finance-focused internal audit function would not be capable of addressing effectively. As in the previous year, the Committee concluded that the structured programme of independent reviews, combining internal "peer" and outsourced reviews of tendering, operational processes and internal financial controls, was the best way of addressing the Group's key risks and that these should be continued and developed.

The Committee also monitors the Group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

Once a year, the Committee evaluates the external Auditors. This evaluation focuses on: the calibre of the audit firm (including reputation, presence in the industry, size, resources and geographic spread); its quality control processes; the quality of the team assigned to the audit; the audit scope, fee and audit communications; and the governance and independence of the audit firm.

Any work awarded to the external Auditors, other than audit and tax compliance, with a value in excess of £50,000 requires the specific approval of the Committee. Where the Committee perceives that the independence of the Auditors could be compromised, the work will not be awarded to them. Details of the amounts paid to the external Auditors during the year for audit and other services are set out in the notes to the financial statements on page 55.

Corporate Governance
continued

Compliance with the Code

The Board believes that the Company was compliant with the Code throughout the year, save in the following respect.

Throughout the year, the Board included four Independent Non-executive Directors which, as a smaller company, exceeded the requirement of the Code. However, since the Company entered the FTSE 250 in November 2006, the Company has not met the standard set by the Code for companies which have been in the FTSE 350 at any time during the year: namely, that at least half the Board, excluding the Chairman, should comprise Independent Non-executive Directors. As previously stated, whilst under the Code Mr Lopez Jimenez is not deemed to be independent of management, the Board considers him to be independent in character and judgement. Were he also deemed to be independent under the Code, the Company would have complied with the Code in all respects.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The principal elements of the internal control framework are as follows:

a) Risk identification and evaluation

Managers are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks may be associated with a variety of internal or external sources including engineering, project management and other technical inputs, control breakdowns, disruptions in information systems, markets and competition, natural catastrophe and regulatory requirements. The identified risks, and the controls in place to manage them, are subject to continual reassessment. The Audit Committee reviews this process once a year.

The Chief Executive reports to the Board on significant changes in the business and the external environment that affect significant risks. The Finance Director provides the Board with monthly financial information which includes key performance and risk indicators.

b) Authorisation procedures

Documented authorisation procedures provide for an auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

c) Management of project risk

Project risk is managed throughout the life of a contract from the bidding stage to completion.

Detailed risk analyses covering technical, operational and financial issues are performed as part of the bidding process. Authority limits applicable to the approval of bids relate to the risk and total value being bid by Keller, or any joint venture to which Keller is a party. Any bids involving an unusually high degree of technical or commercial risk, for example those using a new technology or in a territory where we have not previously worked, must be approved at a senior level within the operating company.

The performance of contracts is monitored by most business units on a weekly basis. In addition, thorough reviews are carried out by senior managers on any poorly performing jobs and full cost-to-complete assessments are routinely carried out on extended duration contracts. It should be noted that the average time on site is around six weeks but larger contracts may extend over several months.

d) Budgeting and forecasting

There is a comprehensive budgeting system with an annual budget approved by the Directors. This budget includes monthly profit and loss accounts, balance sheets and cash flows. In addition, detailed quarterly forecasts are prepared for the two subsequent years. Forecasts for the full year are updated during the year.

e) Financial reporting

Detailed monthly management accounts are prepared which compare profit and loss accounts, balance sheets, cash flows and other information with budget and prior year, and significant variances are investigated.

f) Cash control

Each business reports its cash position weekly. Regular cash forecasts are prepared to monitor the Group's short- and medium-term cash positions and to control immediate borrowing requirements.

g) Investments and capital expenditure

All significant investment decisions, including capital expenditure, are referred to the appropriate divisional or Group authority level.

h) Independent reviews

The Group has a structured programme of independent reviews, combining internal "peer" and outsourced reviews covering tendering, operational processes and internal financial controls. The intention is to conduct an independent review of all material business units at least once every three to four years. This programme is approved and monitored by the Audit Committee, which reviews the findings of each such exercise.

i) Self-certification

Once a year, managers are asked to confirm the adequacy of the systems of internal financial and non-financial controls for which they are responsible; and their compliance with Group policies, local laws and regulations; and to report any control weaknesses identified in the past year.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Keller Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Keller Group plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 46.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Operating Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2006;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
28 February 2007

Consolidated Income Statement
for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Revenue	3	**920.2**	731.0
Operating costs	5	**(831.1)**	(677.9)
Operating profit	3	**89.1**	53.1
Finance income	7	**2.3**	1.5
Finance costs	8	**(7.7)**	(5.8)
Profit before taxation		**83.7**	48.8
Taxation before one-off tax credit		**(30.7)**	(19.8)
One-off tax credit		**3.8**	–
Total taxation	9	**(26.9)**	(19.8)
Profit for the period		**56.8**	29.0
Attributable to:			
Equity holders of the parent		**55.7**	27.3
Minority interests		**1.1**	1.7
		56.8	29.0
Basic earnings per share	11	**84.8p**	41.8p
Earnings per share before one-off tax credit	11	**79.0p**	41.8p
Diluted earnings per share	11	**83.7p**	41.6p
Diluted earnings per share before one-off tax credit	11	**78.0p**	41.6p

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Foreign exchange translation differences		**(8.0)**	8.6
Actuarial losses on defined benefit pension schemes	29	**(0.1)**	(5.9)
Tax on items taken directly to equity	9	**0.1**	1.8
Net (expense)/income recognised directly in equity		**(8.0)**	4.5
Profit for the period		**56.8**	29.0
Total recognised income and expense for the period	24	**48.8**	33.5
Attributable to:			
Equity holders of the parent		**47.9**	32.1
Minority interests		**0.9**	1.4
	24	**48.8**	33.5

Consolidated Balance Sheet
as at 31 December 2006

	Note	2006 £m	2005 £m
Assets			
Non-current assets			
Intangible assets	12	**57.5**	55.7
Property, plant and equipment	13	**114.6**	90.4
Deferred tax assets	9	**7.9**	5.7
Other assets	14	**8.8**	–
		188.8	151.8
Current assets			
Inventories	16	**25.5**	24.4
Trade and other receivables	17	**221.7**	194.6
Cash and cash equivalents	18	**25.2**	25.9
		272.4	244.9
Total assets	3	**461.2**	396.7
Liabilities			
Current liabilities			
Loans and borrowings	22	**(6.8)**	(7.2)
Current tax liabilities		**(9.4)**	(11.0)
Trade and other payables	19	**(192.4)**	(168.5)
		(208.6)	(186.7)
Non-current liabilities			
Loans and borrowings	22	**(57.0)**	(59.6)
Employee benefits	20	**(18.8)**	(21.2)
Deferred tax liabilities	9	**(6.2)**	(5.5)
Other liabilities	21	**(11.5)**	(6.5)
		(93.5)	(92.8)
Total liabilities	3	**(302.1)**	(279.5)
Net assets	3	**159.1**	117.2
Equity			
Share capital	23, 24	**6.6**	6.6
Share premium account	24	**37.1**	36.4
Capital redemption reserve	24	**7.6**	7.6
Translation reserve	24	**(4.5)**	3.3
Retained earnings	24	**105.6**	57.2
Equity attributable to equity holders of the parent	24	**152.4**	111.1
Minority interests	24	**6.7**	6.1
Total equity		**159.1**	117.2

These accounts were approved by the Board of Directors and authorised for issue on 28 February 2007.
They were signed on its behalf by:

J M West Chairman
J W G Hind Finance Director

Consolidated Cash Flow Statement
for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Cash flows from operating activities			
Operating profit		**89.1**	53.1
Depreciation of property, plant and equipment		**13.4**	11.8
Amortisation of intangible assets		**2.4**	0.1
Profit on sale of property, plant and equipment		**(0.6)**	(0.1)
Other non-cash movements		**0.2**	0.5
Foreign exchange (gains)/losses		**(0.2)**	0.1
Operating cash flows before movements in working capital		**104.3**	65.5
Movement in long-term liabilities and employee benefits		**(1.7)**	(2.2)
(Increase)/decrease in inventories		**(3.0)**	1.7
Increase in trade and other receivables		**(30.6)**	(32.4)
Increase in trade and other payables		**29.3**	40.9
Cash generated from operations		**98.3**	73.5
Interest paid		**(6.2)**	(5.1)
Income tax paid		**(30.7)**	(18.8)
Net cash inflow from operating activities		**61.4**	49.6
Cash flows from investing activities			
Interest received		**1.1**	1.2
Proceeds from sale of property, plant and equipment		**2.0**	1.9
Acquisition of subsidiaries, net of cash acquired		**(26.4)**	(7.8)
Acquisition of property, plant and equipment		**(29.4)**	(15.7)
Acquisition of other non-current assets		**(2.6)**	–
Net cash outflow from investing activities		**(55.3)**	(20.4)
Cash flows from financing activities			
Proceeds from the issue of share capital		**0.8**	0.4
New borrowings		**6.6**	1.0
Repayment of borrowings		**(3.6)**	(11.0)
Payment of finance lease liabilities		**(2.1)**	(0.1)
Dividends paid		**(9.0)**	(8.2)
Net cash outflow from financing activities		**(7.3)**	(17.9)
Net (decrease)/increase in cash and cash equivalents		**(1.2)**	11.3
Cash and cash equivalents at beginning of period		**23.3**	11.1
Effect of exchange rate fluctuations		**(1.8)**	0.9
Cash and cash equivalents at end of period	18	**20.3**	23.3

Notes to the Consolidated Accounts

1 General information

Keller Group plc ("the parent") is a company incorporated in the United Kingdom under the Companies Act 1985. The consolidated financial statements are presented in pounds sterling (rounded to the nearest hundred thousand), the functional currency of the parent. Foreign operations are included in accordance with the policies set out in note 2.

2 Principal accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared and approved by the directors in accordance with adopted International Financial Reporting Standards (IFRS), as adopted by the EU.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 71 to 76.

b) Basis of preparation

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The carrying value of hedged items are adjusted for changes in the fair value of the associated hedging instruments.

These accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by subsidiaries.

The Company has adopted the amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts, which apply to periods commencing on or after 1 January 2006.

Where Group companies enter into financial guarantee contracts to guarantee the indebtedness or obligations of other companies within the Group, these are considered to be insurance arrangements, and accounted for as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the guarantor will be required to make a payment under the guarantee. Accordingly the amendments have not had any impact on these financial statements.

IFRS 7 – Financial instruments: Disclosure was available for early application but has not been applied by the Group in these financial statements. The Group will adopt IFRS 7 for the year ending 31 December 2007.

c) Basis of consolidation

The Group accounts consolidate the accounts of the parent and its subsidiary undertakings made up to 31 December each year. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where subsidiary undertakings were acquired or sold during the year, the accounts include the results for the part of the year for which they were subsidiary undertakings using the acquisition method of accounting.

d) Jointly controlled operations

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of jointly controlled operations as defined by IAS 31. The Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements covering the jointly controlled operations.

e) Revenue recognition

Revenue represents the fair value of work done on construction contracts performed during the year on behalf of customers or the value of goods and services delivered to customers. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in proportion to the stage of completion of the contract.

The fair value of work done is based upon estimates of the final expected outcome of contracts and the proportion of work which has been completed.

In the nature of the Group's business, the results for the year include adjustments to the outcome of construction contracts, including jointly controlled operations, completed in prior years arising from claims from customers or third parties and claims on customers or third parties for variations to the original contract.

Prudent provision against claims from customers or third parties is made in the year in which the Group becomes aware that a claim may arise. Income from claims on customers or third parties is not recognised until the outcome can be reliably measured.

Where it is probable that a loss will arise on a contract, full provision for this loss is made in the year in which the Group becomes aware that a loss may arise.

f) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Property, plant and equipment acquired under finance leases are capitalised in the balance sheet at fair value and depreciated in accordance with the Group's accounting policy. The capital element of the leasing commitment is included as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the income statement, and capital, which reduces the outstanding obligation.

Amounts payable under operating leases are charged to contract work in progress or net operating costs on a straight line basis over the lease term.

g) Foreign currencies

Balance sheet items in foreign currencies are translated into sterling at closing rates of exchange at the balance sheet date. Income statements and cash flows of overseas subsidiary undertakings are translated into sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation of opening net assets and income statements at closing and average rates of exchange respectively are dealt with as movements in equity, along with changes in fair values of associated net investment hedges. All other exchange differences are charged to the Income Statement.

2 Principal accounting policies continued

The exchange rates used in respect of principal currencies are:

	2006	2005
US dollar: average for period	**1.84**	1.82
US dollar: period end	**1.96**	1.72
Euro: average for period	**1.47**	1.46
Euro: period end	**1.49**	1.45
Australian dollar: average for period	**2.45**	2.39
Australian dollar: period end	**2.49**	2.36

h) Interest income and expense

All interest income and expense is recognised in profit or loss in the period in which it is incurred.

i) Employee benefit costs

The Group operates a number of defined benefit pension arrangements, and also makes payments into defined contribution schemes for employees.

The liability in respect of defined benefit schemes is the present value of the defined benefit obligations at the balance sheet date, calculated using the projected unit credit method, less the fair value of the schemes' assets. The Group has taken the option to apply the requirements of IAS 19 (revised), recognising the current service cost and interest on scheme liabilities in the Income Statement, and actuarial gains and losses in full in the period in which they occur in equity.

Payments to defined contribution schemes are accounted for on an accruals basis.

j) Taxation

The tax expense represents the sum of the tax currently payable and the deferred tax charge.

Provision is made for current tax on taxable profits for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Full provision is made for deferred tax on temporary differences in line with IAS 12 Income Taxes. Deferred tax assets are recognised when it is considered likely that they will be utilised against future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the related deferred tax is also dealt with in equity.

k) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment.

l) Depreciation

Depreciation is not provided on freehold land.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by reference to their estimated useful lives using the straight line method. The rates of depreciation used are:

Buildings	2%
Long life plant and equipment	8%
Short life plant and equipment	12%
Motor vehicles	25%
Computers	33%

The cost of leased properties is depreciated by equal instalments over the period of the lease or 50 years, whichever is the shorter.

m) Goodwill and other intangible assets

Goodwill

Goodwill arising on consolidation, representing the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets of the subsidiary undertaking at the date of acquisition, is capitalised as an intangible asset.

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous UK GAAP at 1 January 2004.

In accordance with IFRS 3, goodwill has been frozen at its net book value as at 1 January 2004 and is not amortised. Goodwill is reviewed for impairment annually and whenever there is an indication that the goodwill may be impaired, with any impairment losses being recognised immediately in the income statement. Goodwill arising prior to 1 January 1998 was taken directly to equity in the year in which it arose. Such goodwill has not been reinstated on the Balance Sheet.

The fair value of net assets in excess of the fair value of purchase consideration is credited to the Income Statement in the year of acquisition.

Other intangible assets

Intangible assets, other than goodwill, include purchased licences, patents and trademarks. Intangible assets are capitalised at cost and charged to the Income Statement on a straight line basis over their useful economic lives from the date that they are available for use and are stated at cost less accumulated amortisation and impairment losses.

Intangible assets acquired in a business combination are accounted for initially at fair value.

n) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

2 Principal accounting policies continued

o) *Capital work in progress*
Capital work in progress represents expenditure on property, plant and equipment in the course of construction. Transfers are made to other property, plant and equipment categories when the assets are available for use.

p) *Inventories*
Inventories are measured at the lower of cost and estimated net realisable value with due allowance being made for obsolete or slow-moving items.

Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

q) *Financial instruments*
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Derivative financial instruments are accounted for in accordance with IAS 39 and recognised at fair value.

The Group uses currency and interest rate swaps to manage financial risk. Interest charges and financial liabilities are stated after taking account of these swaps.

The Group uses these swaps and other hedges to mitigate exposures to both foreign currency and interest rates.

Hedges are accounted for as follows:

Cash flow hedges: The effective part of any gain or loss on the hedging instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Income Statement. The associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

Fair value hedges: Changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on remeasurement are recognised immediately in the Income Statement.

Net investment hedges: The effective portion of the change in fair value of the hedging instrument is recognised directly in the translation reserve. Any ineffectiveness is recognised immediately in the Income Statement.

r) *Trade receivables*
Trade receivables do not carry any interest and are carried at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

s) *Trade payables*
Trade payables are not interest bearing and are carried at amortised cost.

t) *Share-based payment*
Charges for employee services received in exchange for share-based payment have been made for all options granted after 7 November 2002, that had not vested by 1 January 2005, in accordance with IFRS 2.

Options granted under the Group's employee share schemes are equity settled. The fair value of such options has been calculated using a stochastic model, based upon publicly available market data, and is charged to the Income Statement over the performance period.

u) *Segmental reporting*
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments.

v) *Dividends*
Interim dividends are recorded in the Group's financial statements when paid. Final dividends are recorded in the Group's financial statements in the period in which they receive shareholder approval.

w) *Accounting estimates and judgements*
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and judgements in drawing up the Group's consolidated accounts are in connection with construction contracts in progress, claims on construction contracts, the valuation of pension liabilities and goodwill impairment tests.

The Group's approach to estimates and judgements relating to construction contracts and claims is set out in e) above.

Note 29 contains the principal assumptions underlying the valuation of the Group's defined benefit liabilities. These assumptions were set on the advice of the relevant schemes' actuaries having regard to current market conditions, past history and factors specific to the schemes.

Goodwill has been assessed for impairment by comparing its carrying value with the present value of the discounted cash flows expected to be generated by the relevant cash generating units.

3 Segmental analysis

Segment information is presented in respect of the Group's geographical segments, which are based on the Group's management and internal reporting structure. The Group considers that it has only one business activity: construction.

Geographical segments

Geographical segment information including an analysis of the Group's revenues by geographical market, irrespective of the origin of the services, is presented below:

	2006 Revenue £m	**2006 Operating profit £m**	2005 Revenue £m	2005 Operating profit £m
United Kingdom	**123.2**	**3.2**	89.2	(0.3)
North America	**476.9**	**64.1**	399.9	42.1
Continental Europe & Overseas	**255.0**	**17.9**	204.8	12.7
Australia	**65.1**	**7.0**	37.1	1.8
	920.2	**92.2**	731.0	56.3
Central items and eliminations	**–**	**(3.1)**	–	(3.2)
	920.2	**89.1**	731.0	53.1

	2006 Assets £m	**2006 Liabilities £m**	**2006 Capital employed £m**	2005 Assets £m	2005 Liabilities £m	2005 Capital employed £m
United Kingdom	**43.0**	**(35.5)**	**7.5**	27.8	(34.9)	(7.1)
North America	**208.0**	**(77.7)**	**130.3**	193.5	(76.6)	116.9
Continental Europe & Overseas	**136.6**	**(79.4)**	**57.2**	126.2	(74.5)	51.7
Australia	**33.1**	**(16.1)**	**17.0**	17.6	(10.2)	7.4
	420.7	**(208.7)**	**212.0**	365.1	(196.2)	168.9
Central items*	**40.5**	**(93.4)**	**(52.9)**	31.6	(83.3)	(51.7)
	461.2	**(302.1)**	**159.1**	396.7	(279.5)	117.2

* Central items includes net debt and tax balances.

	2006 Capital additions £m	**2006 Depreciation and amortisation £m**	**2006 Goodwill £m**	2005 Capital additions £m	2005 Depreciation and amortisation £m	2005 Goodwill £m
United Kingdom	**6.3**	**1.2**	**5.0**	1.4	1.0	0.4
North America	**14.5**	**7.1**	**39.4**	6.5	4.9	42.0
Continental Europe & Overseas	**12.8**	**6.1**	**11.9**	6.6	4.8	13.1
Australia	**2.3**	**1.4**	**–**	1.3	1.2	–
	35.9	**15.8**	**56.3**	15.8	11.9	55.5

United Kingdom goodwill includes £4.6m (2005: £Nil) in respect of Phi Group Limited. North America goodwill includes £32.6m (2005: £37.2m) in respect of Suncoast Post-Tension L.P. and Continental Europe & Overseas goodwill includes £6.0m (2005: £6.1m) in respect of Keller-Terra S.L.

Notes to the Consolidated Accounts
continued

4 Acquisition of subsidiaries

	Phi		Piling Contractors		Anderson		Total		
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m	**Carrying amount £m**	**Fair value adjustment £m**	**Fair value £m**
Net assets acquired									
Non-current assets	0.2	1.0	2.7	9.8	3.7	8.6	**6.6**	**12.8**	**19.4**
Current assets	3.0	3.0	6.2	6.2	10.9	10.3	**20.1**	**(0.6)**	**19.5**
Current liabilities	(2.1)	(2.1)	(4.8)	(4.8)	(4.6)	(4.6)	**(11.5)**	**–**	**(11.5)**
Non-current liabilities	–	–	(1.5)	(1.3)	–	(1.5)	**(1.5)**	**(1.3)**	**(2.8)**
	1.1	1.9	2.6	9.9	10.0	12.8	**13.7**	**10.9**	**24.6**
Goodwill		4.6		–		(1.0)			**3.6**
Total consideration		6.5		9.9		11.8			**28.2**
Satisfied by:									
Initial cash consideration		5.5		8.7		11.8			**26.0**
Contingent consideration		1.0		1.2		–			**2.2**
		6.5		9.9		11.8			**28.2**

On 6 April 2006 the Group acquired 100% of the share capital of Phi Group Limited ("Phi") for an initial amount of £5.5m net of cash acquired of £0.7m, and an estimated deferred consideration of £1.0m based on future profits. The goodwill arising on the acquisition of Phi is attributable to the knowledge and expertise of Phi's assembled workforce and the operating synergies that arise from the combination. Included in non-current assets is an intangible asset of £0.8m representing the value of acquired trade marks and patents. In the nine months to 31 December 2006 Phi contributed £0.7m to the net profit of the Group.

On 11 August 2006 the Group acquired 100% of the share capital of Kalbend Pty Limited, renamed Piling Contractors Pty Ltd ("Piling Contractors"), for an initial amount of AUD21.4m (£8.7m) net of cash acquired of AUD4.5m (£1.8m), and an estimated deferred consideration of AUD3.0m (£1.2m) based on future profits. The fair value of non-current assets acquired includes an uplift of AUD17.5m (£7.1m) in respect of property, plant and equipment. In the period to 31 December 2006 Piling Contractors contributed £1.7m to the net profit of the Group.

On 1 October the Group acquired 100% of the share capital of SJA Inc. ("Anderson") for an initial amount of USD21.7m (£11.8m) including the assumption of debt of USD6.6m (£3.6m). The fair value of non-current assets acquired includes an uplift of USD6.1m (£3.3m) in respect of property, plant and equipment and USD2.8m (£1.5m) in respect of Anderson's backlog at the date of acquisition. The deferred tax effect of these adjustments is included in non-current liabilities. In the three months to 31 December 2006 Anderson contributed £0.6m to the net profit of the Group.

Had all three acquisitions taken place on 1 January 2006 total Group revenue would have been £956.3m and total net profit would have been £59.9m. All three companies acquired are engaged in the principal activities of the Group, as defined in the Directors' Report.

On 30 September 2005 the Group acquired the business and assets of G. Donaldson Construction Company Inc. ("Donaldson") for a initial amount of USD10.6m (£5.8m) including the assumption of debt and an estimated deferred consideration of USD2.5m (£1.4m) based on future profits. During 2006 the estimates of the amount of deferred consideration payable, together with the fair values of the assets acquired, were revised giving rise to additional goodwill of £2.6m and additional other intangible assets of £1.1m.

5 Operating costs

	Note	**2006 £m**	2005 £m
Raw materials and consumables		**310.0**	251.9
Staff costs	6	**206.3**	173.8
Other operating charges		**299.0**	240.3
Amortisation of intangibles		**2.4**	0.1
Depreciation:			
Owned property, plant and equipment		**12.9**	11.4
Property, plant and equipment held under finance leases		**0.5**	0.4
		831.1	677.9
Other operating charges include:			
Net foreign exchange gains/(losses)		**0.2**	(0.2)
Fees payable to the Company's Auditors for the audit of the Company's annual accounts		**0.1**	0.1
Fees payable to the Company's Auditors and its associates for other services:			
The audit of the Company's subsidiaries pursuant to legislation		**0.6**	0.6
Tax services		**0.3**	0.2

6 Employees

The aggregate staff costs of the Group were:

	2006 £m	2005 £m
Wages and salaries	**179.5**	149.3
Social security costs	**22.5**	20.4
Other pension costs	**4.3**	4.1
	206.3	173.8

These costs include Directors' remuneration. Disclosures on Directors' remuneration, required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 35 to 41 within the Directors' Remuneration Report and form part of these financial statements.

The average number of persons, including Directors, employed by the Group during the year was:

	2006 Number	2005 Number
United Kingdom	**744**	673
North America	**2,665**	2,326
Continental Europe & Overseas	**1,749**	1,599
Australia	**540**	512
	5,698	5,110

7 Finance income

	2006 £m	2005 £m
Bank and other interest receivable	**1.0**	0.4
Expected return on pension scheme assets	**1.3**	1.1
	2.3	1.5

8 Finance costs

	2006 £m	2005 £m
Interest payable on bank loans and overdrafts	**1.0**	1.2
Interest payable on other loans	**3.9**	2.3
Interest payable on finance leases	**0.1**	0.3
Pension interest cost	**1.8**	1.8
Other interest costs	**0.9**	0.2
	7.7	5.8

9 Taxation

	2006 £m	2005 £m
Current tax expense		
Current year	**29.7**	23.8
Prior years	**(0.1)**	0.1
Total current tax	**29.6**	23.9
Deferred tax expense		
Current year	**0.9**	(3.6)
Prior years:		
One-off tax credit	**(3.8)**	–
Other	**0.2**	(0.5)
Total deferred tax	**(2.7)**	(4.1)
	26.9	19.8

9 Taxation continued

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate can be reconciled to the UK corporation tax rate of 30% as follows:

	2006 %	2005 %
UK corporation tax rate of 30% (2005: 30%)	**30**	30
Tax charged overseas at rates other than 30%	**3**	6
Tax losses carried forward	**–**	4
Permanent timing differences	**3**	2
Adjustment to tax charge in respect of previous periods	**1**	(1)
Effective tax rate before one-off tax credit	**37**	41
One-off tax credit in respect of previous periods	**(5)**	–
Effective tax rate	**32**	41

The one-off tax credit arose following an intra-group financial restructuring during the year, as a result of which it is now anticipated that prior year UK tax losses can be utilised against future UK taxable profits. Consequently, the Group has recognised a £3.8m deferred tax asset in respect of these losses, which has resulted in a one-off tax credit in the 2006 Income Statement.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Unused tax losses £m	Accelerated capital allowances £m	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 1 January 2005	–	11.0	(3.1)	(2.9)	**5.0**
(Credit)/charge to the Income Statement	–	(1.2)	0.9	(3.8)	**(4.1)**
Credit to equity	–	–	(1.8)	–	**(1.8)**
Exchange differences	–	1.4	(0.3)	(0.4)	**0.7**
At 31 December 2005 and 1 January 2006	–	11.2	(4.3)	(7.1)	**(0.2)**
(Credit)/charge to the Income Statement	(3.7)	0.2	1.5	(0.7)	**(2.7)**
Credit to equity	–	–	(0.1)	–	**(0.1)**
Acquired with new subsidiaries	–	2.4	–	(1.0)	**1.4**
Reclassification	(0.4)	–	–	0.4	**–**
Exchange differences	–	(1.4)	0.1	1.2	**(0.1)**
At 31 December 2006	(4.1)	12.4	(2.8)	(7.2)	**(1.7)**

The following is the analysis of the deferred tax balances for financial reporting:

	2006 £m	2005 £m
Deferred tax liabilities	**6.2**	5.5
Deferred tax assets	**(7.9)**	(5.7)
	(1.7)	(0.2)

At the balance sheet date, the Group has unused tax losses of £4.2m (2005: £14.4m) available for offset against future profits, on which no deferred tax asset has been recognised. Losses may be carried forward indefinitely.

10 Dividends paid

Ordinary dividends on equity shares:

	2006 £m	2005 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2006 of 4.2p (2005: 3.8p) per share	**2.8**	2.5
Final dividend for the year ended 31 December 2005 of 8.2p (2004: 7.3p) per share	**5.3**	4.8
	8.1	7.3

The Directors have proposed a final dividend for the year ended 31 December 2006 of £7.5m, representing 11.4p (2005: 8.2p) per share. The proposed dividend is subject to approval by shareholders at the Annual General Meeting on 21 June 2007 and has not been included as a liability in these financial statements.

Notes to the Consolidated Accounts
continued

11 Earnings per share

Basic and diluted earnings per share are calculated as follows:

	2006 Basic £m	2006 Diluted £m	2005 Basic £m	2005 Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**55.7**	**55.7**	27.3	27.3

	No of shares millions	No of shares millions	No of shares millions	No of shares millions
Weighted average of ordinary shares in issue during the year	**65.6**	**65.6**	65.3	65.3
Add: weighted average of shares under option during the year	**–**	**1.6**	–	1.5
Add: weighted average of own shares held	**–**	**0.1**	–	0.1
Subtract: number of shares assumed issued at fair value during the year	**–**	**(0.8)**	–	(1.4)
Adjusted weighted average of ordinary shares in issue	**65.6**	**66.5**	65.3	65.5

	2006 Pence	2006 Pence	2005 Pence	2005 Pence
Earnings per share	**84.8**	**83.7**	41.8	41.6

Earnings per share before the one-off tax credit of 79.0p (2005: 41.8p) is calculated based on earnings of £55.7m (2005: £27.3m) less the one-off tax credit of £3.8m (2005: £Nil) and the weighted average number of ordinary shares in issue during the year of 65.6 million (2005: 65.3 million).

Diluted earnings per share before the one-off tax credit of 78.0p (2005: 41.6p) is calculated based on earnings of £55.7m (2005: £27.3m) less the one-off tax credit of £3.8m (2005: £Nil) and the adjusted weighted average number of ordinary shares in issue during the year of 66.5 million (2005: 65.5 million).

12 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2005	51.5	0.8	**52.3**
Exchange differences	4.0	–	**4.0**
At 31 December 2005 and 1 January 2006	55.5	0.8	**56.3**
Acquired with subsidiaries	–	3.4	**3.4**
Additions	6.3	–	**6.3**
Exchange differences	(5.5)	(0.1)	**(5.6)**
At 31 December 2006	56.3	4.1	**60.4**
Accumulated amortisation			
At 1 January 2005	–	0.5	**0.5**
Amortisation charge for the year	–	0.1	**0.1**
At 31 December 2005 and 1 January 2006	–	0.6	**0.6**
Amortisation charge for the year	–	2.4	**2.4**
Exchange differences	–	(0.1)	**(0.1)**
At 31 December 2006	–	2.9	**2.9**
Carrying amount			
At 31 December 2006	56.3	1.2	**57.5**
At 31 December 2005 and 1 January 2006	55.5	0.2	**55.7**
At 1 January 2005	51.5	0.3	**51.8**

The recoverable amount of goodwill has been determined by reference to the discounted forecast future cash flows of the cash generating units to which the goodwill is allocated.

Notes to the Consolidated Accounts
continued

13 Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Capital work in progress £m	**Total £m**
Cost				
At 1 January 2005	24.0	132.6	0.6	**157.2**
Additions	0.4	13.8	1.6	**15.8**
Acquired with subsidiary	–	3.4	–	**3.4**
Disposals	(0.3)	(4.5)	–	**(4.8)**
Reclassification	0.4	1.1	(1.5)	**–**
Exchange differences	0.7	5.2	–	**5.9**
At 31 December 2005 and 1 January 2006	25.2	151.6	0.7	**177.5**
Additions	1.3	27.2	1.1	**29.6**
Acquired with subsidiaries	0.3	16.8	–	**17.1**
Disposals	–	(5.0)	–	**(5.0)**
Reclassification	–	0.4	(0.4)	**–**
Exchange differences	(1.4)	(11.3)	(0.1)	**(12.8)**
At 31 December 2006	25.4	179.7	1.3	**206.4**
Accumulated depreciation				
At 1 January 2005	3.2	73.1	–	**76.3**
Charge for the year	0.4	11.4	–	**11.8**
Disposals	–	(3.0)	–	**(3.0)**
Exchange differences	–	2.0	–	**2.0**
At 31 December 2005 and 1 January 2006	3.6	83.5	–	**87.1**
Charge for the year	0.5	12.9	–	**13.4**
Disposals	–	(3.6)	–	**(3.6)**
Exchange differences	(0.2)	(4.9)	–	**(5.1)**
At 31 December 2006	3.9	87.9	–	**91.8**
Carrying amount				
At 31 December 2006	21.5	91.8	1.3	**114.6**
At 31 December 2005 and 1 January 2006	21.6	68.1	0.7	**90.4**
At 1 January 2005	20.8	59.5	0.6	**80.9**

The net book value of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	2006 £m	2005 £m
Plant, machinery and vehicles	**2.6**	2.0

14 Other non-current assets

	2006 £m	2005 £m
Fair value of derivative financial instruments	**6.3**	–
Other assets	**2.5**	–
	8.8	–

Notes to the Consolidated Accounts
continued

15 Investments

The Company's principal operating subsidiary undertakings at 31 December 2006 were as follows:

Subsidiary undertaking	Country of incorporation
Keller Limited	UK
Makers UK Limited	UK
Phi Group Limited	UK
Hayward Baker Inc	USA
Case Foundation Company	USA
Case Atlantic Company	USA
McKinney Drilling Company	USA
Suncoast Post-Tension L.P.	USA
SJA Inc	USA
Keller Grundbau GmbH	Germany
Keller Fondations Spéciales SAS	France
Keller Grundbau Ges.mbH	Austria
Keller-Terra S.L.	Spain

Subsidiary undertaking	Country of incorporation
Lime Column Method AB	Sweden
Keller Polska Sp. z o.o.	Poland
Keller Fondazioni S.r.l.	Italy
Keller (Malaysia) Sdn. Bhd	Malaysia
Keller Foundations (South East Asia) Pte Ltd	Singapore
Keller Turki Company Ltd	Saudi Arabia
Geotechnical Engineering Contractor Ltd	Egypt
Frankipile Australia Pty Ltd	Australia
Vibro-Pile (Aust.) Pty Ltd	Australia
Piling Contractors Pty Ltd	Australia
Wannenwetsch GmbH Hochdruckwassertechnik	Germany

Each of the above subsidiary undertakings is directly or indirectly wholly owned by the Company apart from Keller-Terra S.L. which is 51% owned by the Company, Wannenwetsch GmbH Hochdruckwassertechnik which is 84% owned by Keller Holding GmbH and Keller Turki Company Ltd which is 65% owned by Keller Grundbau GmbH. Keller Limited, Phi Group Limited and Keller-Terra S.L. are held directly by the Company. All other shareholdings are held by intermediate subsidiary undertakings. All companies are engaged in the principal activities of the Group, as defined in the Directors' Report.

16 Inventories

	2006 £m	2005 £m
Raw materials and consumables	**11.0**	13.2
Work in progress	**1.1**	0.5
Finished goods	**13.4**	10.7
	25.5	24.4

17 Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**197.4**	174.2
Construction work in progress	**12.2**	9.8
Other receivables	**7.0**	5.6
Prepayments	**5.1**	5.0
	221.7	194.6

	2006 £m	2005 £m
Contracts in progress at balance sheet date:		
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	**194.2**	127.8
Retentions withheld by customers	**14.5**	2.7

Notes to the Consolidated Accounts
continued

18 Cash and cash equivalents

	2006 £m	2005 £m
Bank balances	25.1	25.9
Short-term deposits	0.1	–
Cash and cash equivalents in the balance sheet	25.2	25.9
Bank overdrafts	(4.9)	(2.6)
Cash and cash equivalents in the cash flow statement	20.3	23.3

19 Trade and other payables

	2006 £m	2005 £m
Trade payables	103.4	91.4
Other taxes and social security payable	10.7	10.6
Other payables	59.5	47.6
Accruals	18.8	18.9
	192.4	168.5

20 Employee benefits

	Note	2006 £m	2005 £m
Keller Group Pension Scheme (UK)	29	6.8	11.9
Other retirement benefit schemes	29	8.9	8.6
Other employee benefits		3.1	0.7
		18.8	21.2

21 Other non-current liabilities

	2006 £m	2005 £m
Fair value of derivative financial instruments	3.0	0.4
Other liabilities	8.5	6.1
	11.5	6.5

22 Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange and interest rates.

The Group does not trade in financial instruments nor does it engage in speculative derivative transactions.

Credit risk

The Group's principal financial assets are bank and cash balances and trade and other receivables. These represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to amounts deposited with banks and other financial institutions. This risk is managed by limiting the aggregate amount of exposure to any such institution by reference to their credit rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Currency risk

The Group faces currency risk principally on its net assets, of which a large proportion is in currencies other than sterling. In order to reduce the impact that retranslation of these assets might have on the consolidated balance sheet, the Group manages its borrowings, to the extent practical, to hedge its foreign currency assets. This hedging is typically carried out by borrowings in the same currency as the assets being hedged.

The Group's currency transaction risk is mainly limited to repatriation of profits and intra-Group loan repayments. Exposure to this risk is managed through forward contracts. The Group's foreign exchange cover is executed primarily in the UK.

At 31 December 2006 there were no material forward exchange contracts outstanding (2005: none).

Interest rate risk

Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose of the financing.

Hedging

In October 2004 USD100m was raised through a private placement with US institutions. The proceeds of the issue of USD30m 5.05% notes due 2011 and USD70m 5.48% notes due 2014 were used to refinance existing debt.

The US private placement loans are accounted for on an amortised cost basis, adjusted for the impact of hedge accounting (as described below), and retranslated at the spot exchange rate at each period end. The carrying value of the private placement liabilities at 31 December 2006 was £49.0m (2005: £57.2m).

The USD100m fixed rate private placement liabilities were immediately swapped into floating rates, USD75m by means of US dollar interest rate swaps and USD25m through a dollar euro cross-currency and interest rate swap (together, "the 2004 swaps"). The 2004 swaps have the same maturity as the private placement loans. The fair value of the 2004 swaps at 31 December 2006 represented a liability of £3.0m (2005: £0.4m) included in other non-current liabilities.

The USD75m 2004 interest rate swaps have been designated as fair value hedges of the Group's exposure to changes in the fair value of USD75m of the US private placement loans arising from changes in US interest rates. The USD leg of the 2004 cross currency interest rate swap has been designated a fair value hedge of the Group's exposure to changes in fair value of USD25m of the private placement loans arising from changes in sterling dollar exchange rates and US interest rates. The effective portion of the change in fair value of these hedging instruments during the year, a loss of £3.0m (2005: £0.4m gain), has been taken to the Income Statement along with the equal and opposite movement in fair value of the corresponding hedged items.

USD75m of the private placement liabilities, together with the euro leg of the 2004 cross currency interest rate swap, are designated as net investment hedges of the Group's dollar and euro-denominated net assets. The effective portion of the change in fair value of these hedging instruments during the year, a gain of £5.7m (2005: £4.2m loss), has been taken to the translation reserve through the statement of recognised income and expense along with the foreign exchange gains and losses arising on retranslation of the dollar- and euro-denominated assets they hedge.

In June 2006 USD185m of floating rate intra-group debt was swapped into sterling floating rates by means of dollar sterling cross currency interest rate swaps ("the 2006 swaps").The 2006 swaps have the same maturity as the intra-group debt and have been designated as cash flow hedges. The fair value of the 2006 swaps at 31 December 2006 represented an asset of £6.3m included in other non-current assets. The effective portion of changes in the fair value of the 2006 swaps, a gain of £6.3m, has been taken to the hedging reserve and fully recycled through the Income Statement during the year.

All hedging relationships remained effective during the year.

22 Financial instruments continued

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	2006 Effective interest rate %	2006 Due within 1–2 years £m	2006 Due within 2–5 years £m	2006 Due after more than 5 years £m	2006 Total non-current liability £m	2006 Due within 1 year £m	2006 Total £m
Bank overdrafts	6.4	–	–	–	–	(4.9)	(4.9)
Bank loans*	5.5	(0.8)	(5.5)	–	(6.3)	(0.8)	(7.1)
Other loans	6.2	–	(14.7)	(34.3)	(49.0)	–	(49.0)
Obligations under finance leases*	3.4	(0.9)	(0.8)	–	(1.7)	(1.1)	(2.8)
Total loans and borrowings		(1.7)	(21.0)	(34.3)	(57.0)	(6.8)	(63.8)
Bank balances	3.3	–	–	–	–	25.1	25.1
Short-term deposits*	2.5	–	–	–	–	0.1	0.1
Net debt		(1.7)	(21.0)	(34.3)	(57.0)	18.4	(38.6)

	2005 Effective interest rate %	2005 Due within 1–2 years £m	2005 Due within 2–5 years £m	2005 Due after more than 5 years £m	2005 Total non-current liability £m	2005 Due within 1 year £m	2005 Total £m
Bank overdrafts	6.4	–	–	–	–	(2.6)	(2.6)
Bank loans*	6.5	(1.0)	–	–	(1.0)	(0.8)	(1.8)
Loan notes	5.0	–	–	–	–	(2.8)	(2.8)
Other loans	4.9	–	–	(57.2)	(57.2)	–	(57.2)
Obligations under finance leases*	5.6	(0.6)	(0.6)	(0.2)	(1.4)	(1.0)	(2.4)
Total loans and borrowings		(1.6)	(0.6)	(57.4)	(59.6)	(7.2)	(66.8)
Bank balances	2.2	–	–	–	–	25.9	25.9
Net debt		(1.6)	(0.6)	(57.4)	(59.6)	18.7	(40.9)

* These include assets/liabilities bearing interest at a fixed rate.

The Group had unutilised committed banking facilities of £60.2m at 31 December 2006 (2005: £62.2m). This mainly comprises the unutilised portion of the Group's £80m revolving credit facility which expires on 20 June 2011. In addition, the Group had unutilised uncommitted facilities totalling £15.1m at 31 December 2006 (2005: £22.3m). All of these borrowing facilities are unsecured.

Future obligations under finance leases totalled £3.4m (2005: £3.2m), including interest of £0.6m (2005: £0.8m).

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

The fair value of interest rate and cross currency swaps is calculated based on discounted expected future principal and interest cash flows.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other payables and receivables and construction work in progress

For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted to determine their fair value.

22 Financial instruments continued

Interest rate and currency profile

The profile of the Group's financial assets and financial liabilities after taking account of swaps was as follows:

	2006 Sterling	2006 USD	2006 Euro	2006 AUD	2006 Total
Weighted average fixed debt interest rate	**7.0%**	**–**	**2.5%**	**–**	**n/a**
Weighted average fixed debt period (years)	**10.0**	**–**	**5.0**	**–**	**n/a**

	2006 £m	2006 £m	2006 £m	2006 £m	2006 £m
Fixed rate financial liabilities	**(0.5)**	**–**	**(2.3)**	**–**	**(2.8)**
Floating rate financial liabilities	**(3.4)**	**(36.3)**	**(14.1)**	**(7.2)**	**(61.0)**
Financial assets	**0.5**	**9.1**	**13.1**	**2.5**	**25.2**
Net debt	**(3.4)**	**(27.2)**	**(3.3)**	**(4.7)**	**(38.6)**

	2005 Sterling	2005 USD	2005 Euro	2005 AUD	2005 Total
Weighted average fixed debt interest rate	7.0%	8.2%	2.5%	–	n/a
Weighted average fixed debt period (years)	10.0	10.0	3.5	–	n/a

	2005 £m	2005 £m	2005 £m	2005 £m	2005 £m
Fixed rate financial liabilities	(0.5)	(0.1)	(1.8)	–	(2.4)
Floating rate financial liabilities	(2.5)	(42.8)	(17.2)	(1.9)	(64.4)
Financial assets	2.2	10.0	12.1	1.6	25.9
Net debt	(0.8)	(32.9)	(6.9)	(0.3)	(40.9)

Sensitivity analysis

At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately £0.5m (2005: £0.5m). The impact of interest rate swaps has been included in this calculation.

It is estimated that a general increase of one percentage point in the value of sterling against other principal foreign currencies would have decreased the Group's profit before taxation by approximately £0.8m for the year ended 31 December 2006 (2005: £0.5m). This sensitivity relates to the impact of retranslation of foreign earnings only. The impact on the Group's earnings of currency transaction exchange risk is not significant.

23 Share capital

	2006 £m	2005 £m
Authorised		
Equity share capital:		
80,000,000 ordinary shares of 10p each (2005: 80,000,000)	**8.0**	8.0
Allotted, called up and fully paid		
Equity share capital:		
65,837,074 ordinary shares of 10p each (2005: 65,520,735)	**6.6**	6.6

The Company has one class of ordinary shares, which carries no rights to fixed income. All shares issued in the year related to share options that were exercised.

Notes to the Consolidated Accounts
continued

24 Capital and reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Attributable to equity holders of the parent £m	Minority interest £m	**Total equity £m**
At 1 January 2005	6.6	36.0	7.6	(5.6)	40.8	85.4	5.6	**91.0**
Total recognised income and expense	–	–	–	8.9	23.2	32.1	1.4	**33.5**
Dividends to shareholders	–	–	–	–	(7.3)	(7.3)	(0.9)	**(8.2)**
Share-based payments	–	–	–	–	0.5	0.5	–	**0.5**
Share capital issued	–	0.4	–	–	–	0.4	–	**0.4**
At 31 December 2005 and 1 January 2006	6.6	36.4	7.6	3.3	57.2	111.1	6.1	**117.2**
Total recognised income and expense	–	–	–	(7.8)	55.7	47.9	0.9	**48.8**
Dividends to shareholders	–	–	–	–	(8.1)	(8.1)	(0.9)	**(9.0)**
Share-based payments	–	–	–	–	0.8	0.8	–	**0.8**
Share capital issued	–	0.7	–	–	–	0.7	0.6	**1.3**
At 31 December 2006	6.6	37.1	7.6	(4.5)	105.6	152.4	6.7	**159.1**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of borrowings that hedge those operations.

The capital redemption reserve is a non-distributable reserve created when the Company's shares were redeemed or purchased other than from the proceeds of a fresh issue of shares.

Although the Group has cash flow hedges, the fair value movement during the year on the hedging instruments, a gain of £6.3m, has been fully recycled through the Income Statement along with the corresponding loss arising on the hedged item. The opening and closing balance on the hedging reserve is therefore £Nil.

25 Related party transactions

Transactions between the parent, jointly controlled operations and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year the Group undertook various contracts with a total value of £13.6m (2005: £8.5m) for GTCEISU Construcción, S.A., a connected person of Mr Lopez Jimenez, a Director of the Company. An amount of £8.8m (2005: £5.7m) is included in trade and other receivables in respect of amounts outstanding at 31 December 2006.

All amounts outstanding from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The remuneration of the Directors, who are the key management personnel and related parties of the Group, is set out in the audited part of the Directors' Remuneration Report on pages 35 to 41.

26 Operating lease arrangements

At the balance sheet date the Group's total commitments for future minimum lease payments under non-cancellable operating leases, were as follows:

	2006 Land and buildings £m	**2006 Plant, machinery and vehicles £m**	**2006 Total £m**	2005 Land and buildings £m	2005 Plant, machinery and vehicles £m	2005 Total £m
Payable within one year	**4.7**	**5.3**	**10.0**	4.1	4.5	8.6
Payable between one and five years inclusive	**10.4**	**6.0**	**16.4**	7.8	4.8	12.6
Payable in over five years	**5.2**	**–**	**5.2**	5.3	–	5.3
	20.3	**11.3**	**31.6**	17.2	9.3	26.5

Operating lease payments in respect of land and buildings represent rental payable by the Group for certain of its properties.

27 Contingent liabilities

The Group has entered into bonds in the normal course of business relating to contract tenders, advance payments, contract performance and the release of retentions.

The Company and certain of its subsidiary undertakings have entered into a number of guarantees, the effects of which are to guarantee or cross guarantee certain bank borrowings of other Group companies.

There are claims arising in the normal course of trading, which involve or may involve litigation. All amounts which the Directors consider will become payable on account of such claims have been fully accrued in these accounts.

At 31 December 2006 the Group had discounted bills of exchange and standby letters of credit outstanding totalling £20.6m (2005: £17.9m).

28 Share-based payments

The Group has three share option plans, the 1994 Scheme, the 2001 Plans and the Performance Share Plan.

Details of the terms and conditions of the current share option plans are set out in the Directors' Remuneration Report on pages 35 to 41.

The recognition and measurement principles in IFRS 2 have not been applied to options granted before 7 November 2002 in accordance with the transitional provisions in IFRS 1 and IFRS 2. Under the 1994 Scheme, the option price is equal to the share price on the date of grant. Under the 2001 Plans, the option price is the average of the share price for the three days preceding the date of grant. Under the Performance Share Plan, all awards have an exercise price of £1 per exercise. Options outstanding are as follows:

	1994 Scheme Options	1994 Scheme Weighted average exercise price	2001 Plans Options	2001 Plans Weighted average exercise price	Performance Share Plan Options	Performance Share Plan Weighted average exercise price
Outstanding at 1 January 2005	5,000	102p	1,528,000	276.3p	296,000	–
Granted during 2005	–	–	–	–	330,500	–
Forfeited during 2005	–	–	(611,000)	326.2p	(5,000)	–
Exercised during 2005	(5,000)	102p	(147,000)	231.5p	–	–
Outstanding at 31 December 2005 and 1 January 2006	–	–	770,000	245.5p	621,500	–
Granted during 2006	–	–	–	–	338,750	–
Forfeited during 2006	–	–	(8,000)	251.0p	–	–
Exercised during 2006	–	–	(316,339)	241.2p	–	–
Outstanding at 31 December 2006	**–**	**–**	**445,661**	**245.6p**	**960,250**	**–**
Exercisable at 1 January 2005	–	–	–	–	–	–
Exercisable at 31 December 2005 and 1 January 2006	–	–	202,500	231.5p	–	–
Exercisable at 31 December 2006	**–**	**–**	**445,661**	**245.6p**	**–**	**–**

Exercises occurred throughout the year. The average share price during the year was 597p.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the stochastic model. The contractual life of the option is used as an input into this model, with expectations of early exercise being incorporated into the model.

The inputs into the stochastic model are as follows:

	2006 Performance Share Plan	2005 Performance Share Plan
Weighted average share price	**445.0p**	296.5p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**28.50%**	29.70%
Expected life	**3 years**	3 years
Risk free rate	**4.40%**	4.27%
Expected dividend yield	**2.70%**	3.70%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous six years, adjusted for any expected changes to future volatility due to publicly available information.

The Group recognised total expenses (included in operating costs) of £0.8m (2005: £0.5m) related to equity-settled, share-based payment transactions.

29 Retirement benefit schemes

The Group operates several pension schemes in the UK and overseas.

In the UK, the Group operates the Keller Group Pension Scheme, a defined benefit scheme, which has been closed to new members since 1999 and was closed to all future benefit accrual ("curtailment") with effect from 31 March 2006. Under the scheme employees are normally entitled to retirement benefits on attainment of a retirement age of 65.

The Group has two UK defined contribution retirement benefit schemes. There were no contributions outstanding in respect of these schemes at 31 December 2006 (2005: £Nil). The total UK defined contribution pension charge for the year was £0.3m (2005: £0.2m).

In Germany and Austria, the Group has defined benefit retirement obligations for employees who joined the Group prior to 1 January 1998. These obligations are funded on the Group's balance sheet.

The Group operates a defined contribution scheme for employees in the US, where the Group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total US pension charge for the year was £1.9m (2005: £1.6m).

In Australia there is a defined contribution scheme where the Group is required to ensure that a prescribed level of superannuation support of an employee's notional base earnings is made. This prescribed level of support is currently 9% (2005: 9%). The total Australian pension charge for the year was £1.2m (2005: £0.8m).

Details of the Group's defined benefit schemes are as follows:

	The Keller Group Pension Scheme (UK) Year ended 31 December 2006 £m	The Keller Group Pension Scheme (UK) Year ended 31 December 2005 £m	**German and Austrian Schemes Year ended 31 December 2006 £m**	German and Austrian Schemes Year ended 31 December 2005 £m
Present value of the scheme liabilities	**(32.5)**	(31.7)	**(8.9)**	(8.6)
Present value of assets	**25.7**	19.8	**–**	–
Deficit in the scheme	**(6.8)**	(11.9)	**(8.9)**	(8.6)

The value of the scheme liabilities has been determined by the actuary using the following assumptions:

	31 December 2006 %	31 December 2005 %	**31 December 2006 %**	31 December 2005 %
Discount rate	**5.2**	4.9	**4.5**	4.3
Expected return on scheme assets	**6.3**	6.1	**n/a**	n/a
Rate of increase in salaries	**n/a**	2.8	**–**	–
Rate of increase in pensions in payment	**3.1**	2.8	**1.5**	1.0
Rate of increase in pensions in deferment	**3.1**	2.8	**1.5**	1.0
Rate of inflation	**3.1**	2.8	**1.5**	1.0
Mortality table:				
Pensioners	**PA92 C2000**	PA92 C2000	*****	*
Non-pensioners	**PA92 C2020**	PA92 C2020	*****	*

* Richttafeln 2005 G.

The assets of the schemes were as follows:

	Value as at 31 December 2006 £m	Value as at 31 December 2005 £m	**Value as at 31 December 2006 £m**	Value as at 31 December 2005 £m
Equities	**15.7**	10.7	**n/a**	n/a
Bonds	**10.0**	9.1	**n/a**	n/a
Total present value of assets	**25.7**	19.8	**n/a**	n/a

29 Retirement benefit schemes continued

	The Keller Group Pension Scheme Year ended 31 December 2006 £m	The Keller Group Pension Scheme Year ended 31 December 2005 £m	**German and Austrian Schemes Year ended 31 December 2006 £m**	German and Austrian Schemes Year ended 31 December 2005 £m
Changes in scheme liabilities				
Opening balance	**(31.7)**	(25.0)	**(8.6)**	(8.4)
Current service cost	**(0.1)**	(0.4)	**(0.2)**	(0.1)
Member contributions	**(0.1)**	(0.3)	**–**	–
Interest cost	**(1.5)**	(1.3)	**(0.3)**	(0.5)
Curtailment	**–**	1.7	**–**	–
Past service cost	**(0.2)**	–	**–**	–
Benefits paid	**1.0**	0.7	**0.4**	0.7
Exchange differences	**–**	–	**0.2**	0.3
Actuarial gains/(losses)	**0.1**	(7.1)	**(0.4)**	(0.6)
Closing balance	**(32.5)**	(31.7)	**(8.9)**	(8.6)
Changes in scheme assets				
Opening balance	**19.8**	16.8	**–**	–
Expected return on scheme assets	**1.3**	1.1	**–**	–
Employer contributions	**5.3**	0.5	**–**	–
Member contributions	**0.1**	0.3	**–**	–
Benefits paid	**(1.0)**	(0.7)	**–**	–
Actuarial gains	**0.2**	1.8	**–**	–
Closing balance	**25.7**	19.8	**–**	–
Actual return on scheme assets	**1.5**	2.9	**–**	–
Statement of recognised income and expense (SORIE)				
Actuarial gains from assets	**0.2**	1.8	**–**	–
Actuarial gains/(losses) from liabilities	**0.1**	(7.1)	**(0.4)**	(0.6)
Net actuarial gains/(losses)	**0.3**	(5.3)	**(0.4)**	(0.6)
Cumulative actuarial losses	**(7.2)**	(7.5)	**(1.5)**	(1.1)
Expense/(income) recognised in the income statement				
Current service cost	**0.1**	0.4	**0.2**	0.1
Curtailment	**–**	(1.7)	**–**	–
Past service cost	**0.2**	–	**–**	–
Operating costs	**0.3**	(1.3)	**0.2**	0.1
Interest cost	**1.5**	1.3	**0.3**	0.5
Expected return on assets	**(1.3)**	(1.1)	**–**	–
Expense/(income) recognised in the income statement	**0.5**	(1.1)	**0.5**	0.6
Movements in the balance sheet liability				
Net liability at start of year	**11.9**	8.2	**8.6**	8.4
Expense/(income) recognised in profit or loss	**0.5**	(1.1)	**0.5**	0.6
Contributions	**(5.3)**	(0.5)	**–**	–
Benefits paid	**–**	–	**(0.4)**	(0.7)
Exchange differences	**–**	–	**(0.2)**	(0.3)
Actuarial (gain)/loss recognised in SORIE	**(0.3)**	5.3	**0.4**	0.6
Net liability at end of year	**6.8**	11.9	**8.9**	8.6

The expected return on the average value of the assets over the year was calculated using the long-term average rate of return expected over the remaining term of the scheme's liabilities. The contributions expected to be paid during 2007 are £1.2m.

29 Retirement benefit schemes continued

The history of experience adjustments on scheme assets and liabilities for all the Group's defined benefit pension schemes is as follows:

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Present value of defined benefit obligations	**(41.4)**	(40.3)	(33.4)	(27.1)	(24.1)
Fair value of scheme assets	**25.7**	19.8	16.8	17.4	14.4
Deficit in the schemes	**(15.7)**	(20.5)	(16.6)	(9.7)	(9.7)
Experience adjustments on scheme liabilities					
Amount	**(0.3)**	(7.7)	(3.1)	0.2	(2.6)
Percentage of scheme liabilities	**0.7%**	19.0%	9.4%	0.6%	10.8%
Experience adjustments on scheme assets					
Amount	**0.2**	1.8	0.5	1.0	(2.7)
Percentage of scheme assets	**0.8%**	9.0%	2.7%	5.6%	18.8%

Keller Group plc
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Company Balance Sheet
as at 31 December 2006

	Note	2006 £m	2005 £m
Fixed assets			
Tangible fixed assets	4	**0.3**	–
Investments	5	**69.0**	61.9
Deferred tax assets	6	**3.3**	–
		72.6	61.9
Current assets			
Debtors*	7	**192.8**	100.4
Cash at bank and in hand		**0.4**	–
Creditors: amounts falling due within one year	8	**(9.0)**	(28.7)
Net current assets*		**184.2**	71.7
Total assets less current liabilities		**256.8**	133.6
Creditors: amounts falling due after more than one year	9	**(78.1)**	(62.2)
Retirement benefits	14	**(0.8)**	(1.3)
Net assets		**177.9**	70.1
Capital and reserves			
Called up share capital	10	**6.6**	6.6
Share premium account	12	**37.1**	36.4
Capital redemption reserve	12	**7.6**	7.6
Profit and loss account	12	**126.6**	19.5
Shareholders' funds	11	**177.9**	70.1

* Debtors and net current assets include debtors recoverable after more than one year of £191.0m (2005: £81.4m).

These accounts were approved by the Board of Directors and authorised for issue on 28 February 2007.
They were signed on its behalf by:

J M West Chairman
J W G Hind Finance Director

Notes to the Company Accounts

1 Significant accounting policies

These accounts have been prepared under the historical cost convention in accordance with applicable accounting standards of UK Generally Accepted Accounting Practice.

The following accounting policies have been applied consistently with the exception that the Company has taken the option to apply the requirements of the amendment to FRS 17. This has had no material impact on the accounts for the current or prior year.

The principal accounting policies adopted under UK GAAP are the same as the Group's accounting policies under International Financial Reporting Standards except for those listed below:

Basis of accounting

No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

Retirement benefits

The Company operates a defined benefit pension scheme, and also makes payments into defined contribution schemes for employees.

The liability in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date, calculated using the projected unit credit method, less the fair value of the scheme's assets.

The Company has applied the requirements of FRS 17 recognising the current service cost and interest on scheme liabilities in the profit and loss account, and actuarial gains and losses in reserves.

Payments to defined contribution schemes are accounted for on an accruals basis.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Deferred taxation

Except where otherwise required by FRS 19, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Tangible fixed assets

Tangible fixed assets principally consist of leasehold improvements which are depreciated over the term of the lease.

2 Operating profit

Operating profit is stated after charging fees payable to the Company's Auditors for the audit of the Company's annual accounts of £0.1m (2005: £0.1m). The Company has no employees other than the Directors. Directors' remuneration and details of their share-based payments are disclosed in the Directors' Remuneration Report on pages 35 to 41.

Notes to the Company Accounts
continued

3 Dividends paid
Ordinary dividends paid on equity shares are disclosed in note 10 to the Consolidated Accounts.

4 Tangible fixed assets

	Leasehold improvements £m	**Total £m**
Cost		
At 1 January 2006	–	**–**
Additions	0.3	**0.3**
At 31 December 2006	0.3	**0.3**
Accumulated depreciation		
At 1 January 2006 and 31 December 2006	–	**–**
Carrying amount		
At 31 December 2006	0.3	**0.3**
At 1 January 2006	–	**–**

5 Investments
The Company's principal investments are disclosed in note 15 to the Consolidated Accounts.

During the year the Company made an investment of £7.1m in Phi Group Limited. Further details of this acquisition are given in note 4 to the Consolidated Accounts.

6 Deferred tax
The following are the major deferred tax assets recognised by the Company and movements thereon during the current reporting period.

	Unrelieved losses £m	Other timing differences £m	**Total £m**
At 1 January 2006	–	–	**–**
Credit to the profit and loss account	3.0	0.3	**3.3**
At 31 December 2006	3.0	0.3	**3.3**

7 Debtors

	2006 £m	2005 £m
Amounts owed by subsidiary undertakings	**186.5**	100.4
Other debtors	**6.3**	–
	192.8	100.4
Included in the above are amounts falling due after more than one year in respect of:		
Amounts owed by subsidiary undertakings	**184.7**	81.4
Other debtors	**6.3**	–
	191.0	81.4

8 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Overdrafts	**–**	5.3
Loan notes	**–**	2.8
Amounts owed to subsidiary undertakings	**5.9**	17.1
Other creditors	**2.5**	2.8
Accruals	**0.6**	0.7
	9.0	28.7

Notes to the Company Accounts
continued

9 Creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Bank loans	**5.5**	–
Other loans	**49.0**	56.5
Other creditors	**3.0**	0.4
Amounts owed to subsidiary undertakings	**20.6**	5.3
	78.1	62.2
Bank and other loans are repayable as follows:		
Between two and five years	**20.5**	–
In five years or more	**34.0**	56.5
	54.5	56.5

The Company had an unutilised committed banking facility of £55.8m at 31 December 2006 (2005: £65.0m); the facility expires on 20 June 2011.

10 Share capital
Details of the Company's share capital are given in note 23 to the Consolidated Accounts.

11 Reconciliation of movements in shareholders' funds

	2006 £m	2005 £m
Profit for the financial year	**114.4**	13.3
Actuarial gain on defined benefit pension scheme (net of deferred tax)	**–**	0.2
Dividends	**(8.1)**	(7.3)
Issue of new shares	**0.7**	0.4
Share-based payments	**0.8**	0.5
Net movements in shareholders' funds	**107.8**	7.1
Shareholders' funds at 1 January	**70.1**	63.0
Shareholders' funds at 31 December	**177.9**	70.1

All shares issued in the year related to share options that were exercised.

12 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 January 2006	36.4	7.6	19.5	**63.5**
Profit for the financial year	–	–	114.4	**114.4**
Dividends	–	–	(8.1)	**(8.1)**
Issue of new shares	0.7	–	–	**0.7**
Share-based payments	–	–	0.8	**0.8**
At 31 December 2006	37.1	7.6	126.6	**171.3**

Of the profit and loss account reserve, an amount of £100.8m attributable to profits arising on an intra-Group reorganisation is not distributable.

13 Share-based payments
Details of the Company's share option plans are given in note 28 to the Consolidated Accounts.

14 Retirement benefit schemes
In the UK, the Company participates in the Keller Group Pension Scheme, a defined benefit scheme, details of which are given in note 29 to the Consolidated Accounts. The Company's share of the present value of the assets of the scheme at the date of the last actuarial valuation on 5 April 2005 was £3.2m and the actuarial valuation showed a funding level of 62%. The next actuarial valuation will be carried out as at 5 April 2008.

Details of the actuarial methods and assumptions, as well as steps taken to address the deficit in the scheme, are given in note 29 to the Consolidated Accounts.

Notes to the Company Accounts
continued

14 Retirement benefit schemes continued

There were no contributions outstanding in respect of the defined contribution schemes at 31 December 2006 (2005: £Nil).
Details of the Company's share of the Keller Group Pension Scheme are as follows:

	2006 £m	2005 £m
Present value of the scheme liabilities	(5.2)	(5.1)
Present value of assets	4.1	3.2
Deficit in the scheme	(1.1)	(1.9)
Related deferred tax asset at 30%	0.3	0.6
Net pension liability	(0.8)	(1.3)

The assets of the scheme were as follows:

	2006 £m	2005 £m
Equities	2.5	1.7
Bonds	1.6	1.5
Total present value of assets	4.1	3.2

	2006 £m	2005 £m
Changes in scheme liabilities		
Opening balance	(5.1)	(6.9)
Member contributions	–	(0.1)
Interest cost	(0.3)	(0.2)
Curtailment	–	0.1
Benefits paid	0.2	0.1
Actuarial gains	–	1.9
Closing balance	(5.2)	(5.1)
Changes in scheme assets		
Opening balance	3.2	4.6
Expected return on scheme assets	0.2	0.2
Employer contributions	0.9	0.1
Member contributions	–	0.1
Benefits paid	(0.2)	(0.1)
Actuarial gains	–	(1.7)
Closing balance	4.1	3.2
Actual return on scheme assets	0.2	0.1
Statement of total recognised gains and losses (STRGL)		
Actuarial gains from assets	–	(1.7)
Actuarial losses from liabilities	–	1.9
Net actuarial gain	–	0.2
Cumulative actuarial losses	(0.4)	(0.4)
Expense/(income) recognised in the profit and loss account		
Curtailment	–	(0.1)
Operating costs	–	(0.1)
Interest cost	0.3	0.2
Expected return on assets	(0.2)	(0.2)
Expense/(income) recognised in the income statement	0.1	(0.1)
Movements in the balance sheet liability		
Net liability at start of year	1.9	2.3
Expense/(income) recognised in profit or loss	0.1	(0.1)
Contributions	(0.9)	(0.1)
Actuarial loss recognised in STRGL	–	(0.2)
Net liability at end of year	1.1	1.9

The expected return on the average value of the assets over the year was calculated using the long-term average rate of return expected over the remaining term of the scheme's liabilities. The contributions expected to be paid during 2007 are £0.2m.

14 Retirement benefit schemes continued

The history of experience adjustments on scheme assets and liabilities is as follows:

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Present value of defined benefit obligations	**(5.2)**	(5.1)	(6.9)	(4.3)	(3.9)
Fair value of scheme assets	**4.1**	3.2	4.6	2.8	2.3
Deficit in the scheme	**(1.1)**	(1.9)	(2.3)	(1.5)	(1.6)
Experience adjustments on scheme liabilities					
Amount	**–**	1.7	(0.1)	0.2	0.7
Percentage of scheme liabilities	**0%**	33%	0.9%	4.1%	12.5%
Experience adjustments on scheme assets					
Amount	**–**	(1.7)	0.1	0.3	(0.8)
Percentage of scheme assets	**0%**	53.1%	2.7%	6.4%	21.7%

Financial Record

	UK GAAP 2002 £m	UK GAAP 2003 £m	UK GAAP 2004 £m	IFRS 2004 £m	IFRS 2005 £m	**IFRS 2006 £m**
Consolidated Income Statement						
Revenue	511.0	567.5	595.9	595.9	731.0	**920.2**
Operating profit before exceptional items and amortisation of intangibles	34.3	32.8	33.7	34.0	53.2	**91.5**
Amortisation of intangibles	(3.1)	(3.4)	(2.9)	(0.1)	(0.1)	**(2.4)**
Exceptional items	–	(10.4)	–	–	–	**–**
Operating profit	31.2	19.0	30.8	33.9	53.1	**89.1**
Interest receivable	0.3	0.3	0.3	1.4	1.5	**2.3**
Finance costs	(4.2)	(4.5)	(4.5)	(5.6)	(5.8)	**(7.7)**
Profit before taxation	27.3	14.8	26.6	29.7	48.8	**83.7**
Taxation – underlying	(10.7)	(10.7)	(11.1)	(11.8)	(19.8)	**(30.7)**
Taxation – one-off tax credit	–	–	–	–	–	**3.8**
Profit for the period	16.6	4.1	15.5	17.9	29.0	**56.8**
Attributable to:						
Equity holders of the parent	16.4	2.3	13.4	15.8	27.3	**55.7**
Minority interests	0.2	1.8	2.1	2.1	1.7	**1.1**
	16.6	4.1	15.5	17.9	29.0	**56.8**
Consolidated Balance Sheet						
Intangible assets	66.7	57.0	57.9	51.8	55.7	**57.5**
Property, plant and equipment	79.8	82.2	80.9	80.9	90.4	**114.6**
Other net operating assets	43.9	40.1	46.8	46.3	49.7	**48.0**
Net debt	(68.0)	(60.7)	(60.0)	(58.7)	(40.9)	**(38.6)**
Other liabilities	(22.3)	(21.0)	(24.2)	(29.3)	(37.7)	**(22.4)**
Net assets	100.1	97.6	101.4	91.0	117.2	**159.1**
Minority interests	(4.2)	(5.6)	(5.6)	(5.6)	(6.1)	**(6.7)**
Equity attributable to equity holders of the parent	95.9	92.0	95.8	85.4	111.1	**152.4**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Keller Group plc will be held at the offices of Smithfield Consultants Limited, 10 Aldersgate Street, London EC1A 4HJ on 21 June 2007 at 11.00am for the transaction of the following business:

Ordinary business

(1) To receive and adopt the Directors' Report and the Statement of Accounts for the year ended 31 December 2006 together with the Independent Auditors' Report thereon.

(2) To declare a final dividend of 11.4p per ordinary share, such dividend to be paid on 29 June 2007 to members on the register at the close of business on 1 June 2007.

(3) To approve the Directors' Remuneration Report for the year ended 31 December 2006.

(4) To re-elect as a Director Dr K Bond who retires by rotation.

(5) To re-elect as a Director Mr J W G Hind who retires by rotation.

(6) To re-elect as a Director Dr W Sondermann who retires by rotation.

(7) To re-elect as a Director Dr J M West who, having served on the Board as a Non-executive Director for nine years, offers himself for re-election.

(8) To re-appoint KPMG Audit Plc as Auditors to the Company and to authorise the Directors to fix their remuneration.

To consider and, if thought fit, to pass the following resolutions of which resolutions numbered 9 and 10 will be proposed as ordinary resolutions and resolutions numbered 11 and 12 will be proposed as special resolutions:

(9) THAT the Directors be and are hereby generally authorised for the purposes and subject to the provisions of Article 162 of the Company's Articles of Association to offer the holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of all or part of such dividend or dividends as may be declared by the Company or by the Directors and that the authority of the Directors to make such offers shall be exercisable during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company.

(10) THAT:

(i) the Directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £2,193,240 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company, provided that the Company may make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired; and

(ii) all previous authorisations given by the Company in general meeting or otherwise pursuant to Section 80 of the Act be and are hereby revoked to the extent not previously exercised.

(11) THAT, subject to the passing of resolution 10 above, the Directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94(2) of the Act) of the Company within the terms of the authority set out in resolution 10 above as if Section 89(1) of the Act did not apply to such allotment provided that such power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of such shares subject only to such exclusions or other arrangements as the Directors may consider expedient to deal with fractional entitlements or legal or practical considerations arising under the laws of any territory or the requirements of any regulatory body; and

(ii) the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal value of £329,315

and shall expire at the conclusion of the next Annual General Meeting of the Company save that the Directors may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

(12) THAT the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of up to in aggregate 6,586,307 of its own ordinary shares of 10p each in the capital of the Company ("ordinary shares") (representing 10% of the Company's issued ordinary share capital at the date of this notice) provided that:

(i) the maximum price which may be paid for an ordinary share is an amount equal to not more than 5% above the average of the middle market quotations for the shares taken from the London Stock Exchange Daily Official List for the five business days before the day on which the purchase is made exclusive of expenses payable by the Company;

(ii) the minimum price which may be paid for a share is 10p; and

(iii) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which would or may require to be completed or executed wholly or partly after the expiration of this authority as if the said authority had not expired.

By order of the Board

Jackie Holman
Secretary
28 February 2007

Registered office:
Capital House, 25 Chapel Street
London NW1 5DH

Notice of Annual General Meeting
continued

Notes

1. *Resolution 9 – Scrip dividends*

Article 162 of the Company's Articles of Association permits the Directors, subject to the authority of the Company in general meeting, to offer to shareholders the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of dividends declared by the Company or by the Directors.

The Board recommends that by an ordinary resolution it be given authority to make such offers until the conclusion of the next Annual General Meeting.

2. *Resolutions 10 and 11 – Authority to allot shares*

Under the Companies Act 1985 (the Act), the Directors of the Company may only allot unissued shares if authorised to do so under Section 80 of the Act. Section 89 of the Act prevents allotments for cash, other than to existing shareholders in proportion to their existing holdings, unless the Directors are specifically authorised. This gives existing shareholders what are known as "pre-emption rights".

The Articles of Association give a general authority to the Directors to allot unissued shares and disapply these pre-emption rights. Passing resolutions 10 and 11 will extend the Directors' flexibility to act in the best interests of shareholders, when opportunities arise, to issue new shares.

The Directors will be able to issue new shares up to a nominal value of £2,193,240 which is equal to approximately 33.3% of the issued ordinary share capital at 28 February 2007. The Directors will also be able either to issue shares for cash, other than to existing shareholders in proportion to their existing holdings, up to a maximum nominal amount of £329,315 representing about 5% of the issued ordinary share capital at 28 February 2007 or, other than for cash, in a rights issue.

These arrangements are intended to ensure that the interests of existing shareholders are protected so that, for example, in the event of a share issue which is not a rights issue, the proportionate interests of existing shareholders could not, without their agreement, be reduced by more than 5% by the issue of new shares for cash to new shareholders. Further, the Board does not intend to issue more than 7.5% of the issued share capital, other than in a rights issue, in any three-year period, in accordance with the guidelines of the ABI.

The Board has no current plans to allot ordinary shares except in connection with the executive share arrangements.

The authority sought by resolutions 10 and 11 will expire at the conclusion of the next Annual General Meeting, but could be varied or withdrawn by agreement of shareholders at an intervening general meeting.

3. *Resolution 12 – Purchase of the Company's own shares*

This resolution grants a limited authority to the Company to purchase through the market up to 10% of the issued ordinary share capital. The resolution specifies the maximum and minimum prices at which the shares may be bought at the date of the notice. The authority sought will expire at the conclusion of the next Annual General Meeting. The Directors have no immediate intention of exercising the proposed authority when it becomes effective. Any purchases will only be made when, in the opinion of the Directors, an improvement in earnings per share of the remaining shares is anticipated and it is in the best interests of shareholders generally.

4. *Proxies*

Any member entitled to attend and, on a poll, vote at the Annual General Meeting convened by this notice may appoint one or more proxies to attend and to vote instead of him. A proxy need not be a member of the Company.

To appoint a proxy, the form enclosed with this notice should be completed and deposited at the offices of the Company's Registrars not less than 48 hours before the time of the Annual General Meeting specified above or of the adjourned meeting at which the proxy proposes to vote. Completion of a form of proxy does not preclude a member from attending and voting at the meeting in person.

5. *Directors' Service Contracts and Biographical Details*

Copies of all the Directors' service contracts or memoranda of the terms thereof; the register of interests of Directors in the share capital of the Company; and the memorandum and Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

Directors' biographical details are set out on pages 30 and 31.

Principal Offices

UK

Keller Limited
Oxford Road
Ryton-on-Dunsmore
Coventry CV8 3EG
Telephone 02476 511266
Fax 02476 305230

Makers UK Limited
3rd Floor, Lyon Court
Walsworth Road
Hitchin SG4 9SX
Telephone 01462 477333
Fax 01462 477337

Phi Group Limited
Harcourt House
Royal Crescent
Cheltenham GL50 3DA
Telephone 0870 333 4122
Fax 0870 333 4127

Australia

Franki Pacific Holdings Pty Ltd
Level 1
4 Burbank Place
Baulkham Hills
NSW 2153
Telephone 612 8866 1100
Fax 612 8866 1101

Vibro-Pile (Aust.) Pty Ltd
No 1, Steele Court
Mentone
VIC 3194
Telephone 613 9584 4544
Fax 613 9583 8629

Keller Ground Engineering Pty Ltd
Level 1
4 Burbank Place
Baulkham Hills
NSW 2153
Telephone 612 8866 1155
Fax 612 8866 1151

Piling Contractors Pty Ltd
5 Jacque Court
P.O. Box 346
Lawnton
QLD 4501
Telephone 617 3285 5900
Fax 617 3285 5745

USA

Hayward Baker Inc
1130 Annapolis Road
Odenton
Maryland 21113
Telephone 1410 551 8200
Fax 1410 551 1900

Case Foundation Company
PO Box 40
1325 West Lake Street
Roselle
Illinois 60172
Telephone 1630 529 2911
Fax 1630 529 4802

Suncoast Post-Tension L.P.
654 N Sam Houston Park Way
East, Suite 110
Houston
Texas 77060
Telephone 1281 668 1840
Fax 1281 668 1864

McKinney Drilling Company
1130 Annapolis Road
Suite 103
Odenton
Maryland 21113
Telephone 1410 874 1235
Fax 1410 551 1236

Anderson Drilling
10303 Channel Road
Lakeside
California 92040
Telephone 1800 237 4551
Fax 1619 443 0724

Continental Europe

Keller Grundbau GmbH
Kaiserleistrasse 44
D-63006 Offenbach
Germany
Telephone 4969 80510
Fax 4969 8051244

Keller Fondations Spéciales
Espace Plein Ciel
Allée de l'Europe
F-67960 Entzheim
France
Telephone 333 88599200
Fax 333 88599590

Keller Grundbau Ges.mbH
Mariahilfer Strasse 127a
Postfach 99
A-1151 Vienna
Austria
Telephone 431 8923526
Fax 431 8923711

Keller-Terra S.L.
Miguel Yuste, 45BIS
E-28037 Madrid
Spain
Telephone 34 91 423 75 61
Fax 34 91 423 75 01

Overseas

Keller (Malaysia) Sdn. Bhd.
B-5-10 Plaza Dwitasik
Bandar Sri Permaisuri
56000 Cheras
Kuala Lumpur
Telephone 603 91733198
Fax 603 91733196

Geotechnical Engineering
462 Horreya Street
Roushdy
Alexandria
Egypt
Telephone 203 5458443
Fax 203 5427372

Keller Foundations (SE Asia) Pte Ltd
25 International
Business Park
#04–110 German Center
Singapore 60 99 16
Telephone 65 65 62 90 12
Fax 65 65 62 90 14

Secretary and Advisers

Company Secretary
J F Holman

Registered Office
Capital House
25 Chapel Street
London NW1 5DH

Registered Number
2442580

Stockbrokers and Financial Advisers
Dresdner Kleinwort
30 Gresham Street
P.O. Box 52715
London EC2P 2XY

Auditors
KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

Principal Bankers
Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Legal Advisers
DLA Piper UK LLP
3 Noble Street
London EC2V 7EE

Financial Public Relations Advisers
Smithfield Consultants
10 Aldersgate Street
London EC1A 4HJ

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

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Greg Bartley

Keller Group plc
Capital House
25 Chapel Street
London NW1 5DH

www.keller.co.uk