KELLER

Building on our strengths

Keller Group plc

Annual Report and Accounts 2007

Welcome to Keller

The International Ground Engineering Specialist

We are the world's largest and most profitable independent ground engineering contractor, renowned for providing technically advanced and cost-effective foundation solutions. Our reputation is built on engineering excellence and a commitment to continual innovation.

We have unrivalled coverage in Europe, North America and Australia and a growing presence in the Middle East and Asia.

Our services are used across the construction spectrum in industrial, commercial, infrastructure, housing and environmental projects.

Revenue
from continuing operations
(2006: £857.7m)

£955.1m
+11%

Highlights

- Strong organic growth, particularly from outside of the US
- Good contribution from acquisitions
- Stripping out acquisition and currency effects, revenue up 7%

Operating profit
from continuing operations
(2006: £89.3m)

£107.4m
+20%

Highlights

- Another record operating margin
- Consistent performance across the Group
- Operating profit trebled in three years

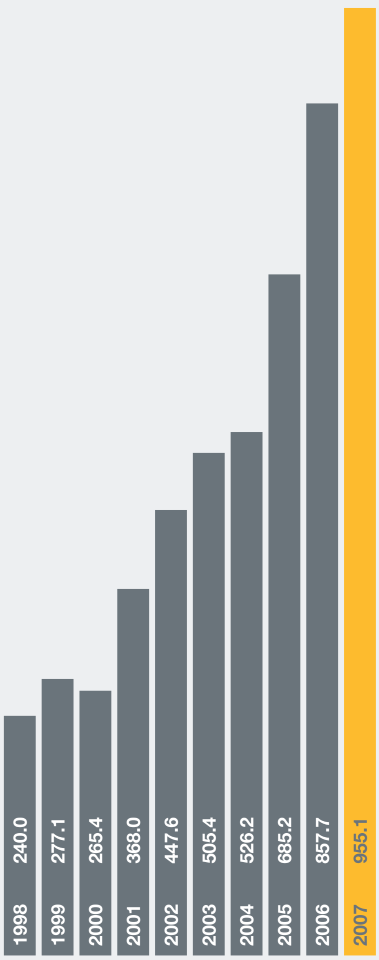
Earnings per share
from continuing operations
(2006: 79.0p[2])

97.6p
+24%

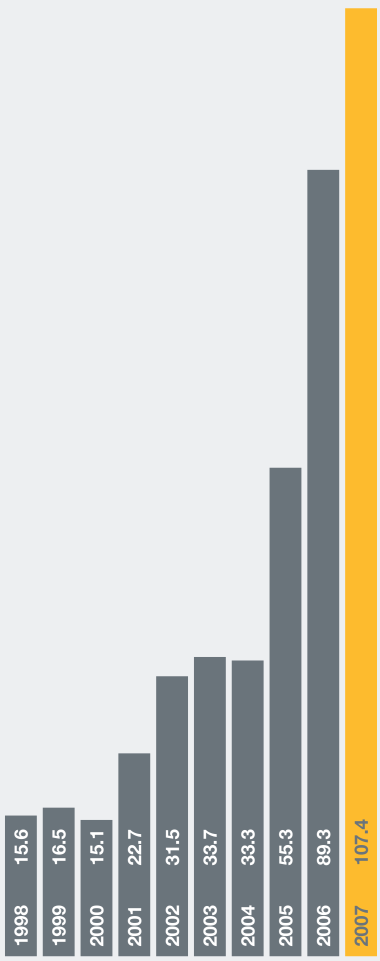
Highlights

- Compound annual growth rate of 21% over the past 10 years

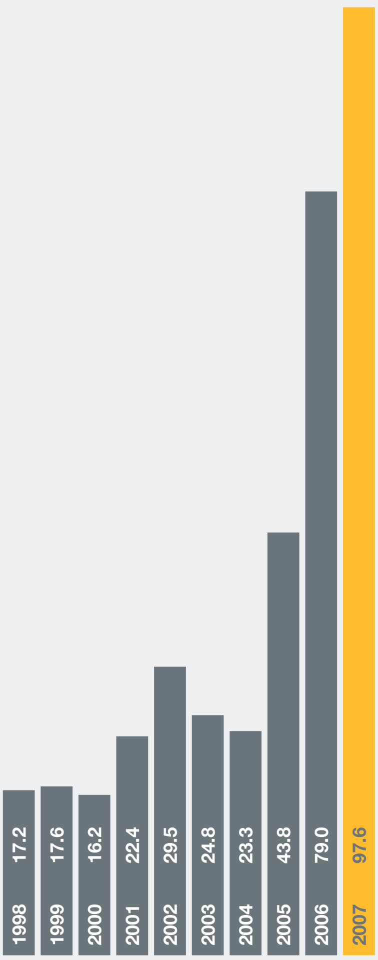
Revenue
from continuing operations[1] (£m)



Operating profit
from continuing operations[1] (£m)



Earnings per share
from continuing operations[1,2] (pence)



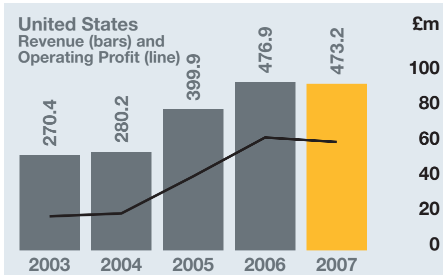
[1] 1998–2003 figures reported under UK GAAP and stated before exceptionals and amortisation of intangibles. 2004–2007 figures reported under IFRS. [2] 2006 earnings per share before one-off tax credit.

Keller at a Glance

Revenue
–1% (2006: £476.9m)
£473.2m

Operating profit
–4% (2006: £64.1m)
£61.6m

5-year performance



Who and where we are

Keller is the market leader in the US, where it has had a presence for over 20 years. Today, Keller operates from locations spanning the country under the names: Hayward Baker, Suncoast, Case, McKinney, Anderson and HJ.

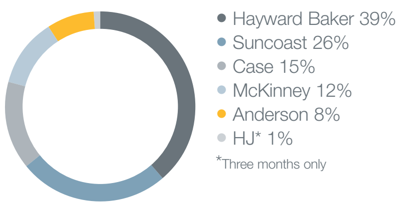
Achievements

- Outstanding margin
- Strong cash generation
- HJ acquisition (October)
- Anderson integration

Priorities for 2008

- Complete integration of HJ
- Continue product expansion
- Continue efficiency drive in Suncoast

Revenue by business unit



Our overriding strategic objective is to extend 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.**

Revenue
+16% (2006: £255.0m)
£296.8m

Operating profit
+70% (2006: £17.9m)
£30.4m

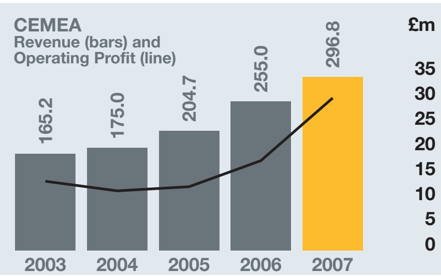
Revenue
+64% (2006: £65.1m)
£107.1m

Operating profit
+110% (2006: £7.0m)
£14.7m

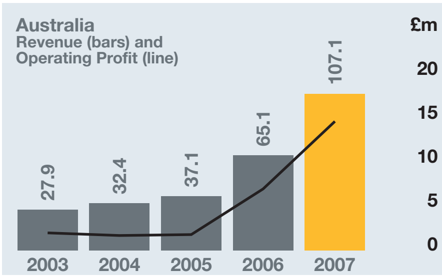
Revenue from continuing operations
+28% (2006: £60.7m)
£78.0m

Operating profit from continuing operations
+12% (2006: £3.4m)
£3.8m

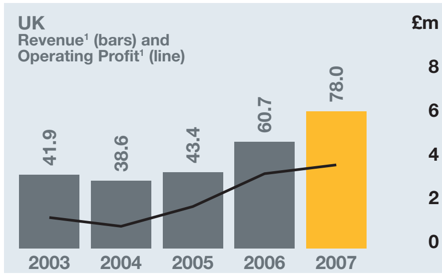
5-year performance



5-year performance



5-year performance



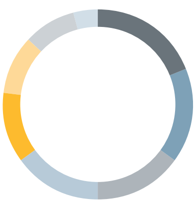
[1] From continuing operations

Who and where we are
Outside the US, UK and Australia, Keller has branches or subsidiaries in around 30 countries in Continental Europe, the Middle East and Asia, mainly trading under the Keller brand.

Achievements
- Best-ever margin
- Excellent organic growth in piling
- Middle East revenue trebled in three years
- Eastern Europe revenue trebled in three years

Priorities for 2008
- Continue development of piling services
- Accelerate push into Eastern European markets
- Continue expansion of Middle East operations

Revenue by business unit



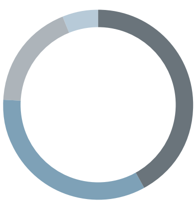
- Spain 19%
- Eastern Europe 16%
- Germany 15%
- France/FWI 15%
- Middle East 12%
- Austria 10%
- Other 9%
- Asia 4%

Who and where we are
Keller is the leading foundation specialist in Australia, where Frankipile, Vibro-Pile and Piling Contractors offer a wide range of piling services and Keller Ground Engineering offers specialist ground improvement and geotechnical solutions.

Achievements
- Record sales
- Profits doubled
- Largest-ever contract award
- Good business synergies

Priorities for 2008
- Continue geographic expansion
- Increase offering of packaged solutions
- Target further large infrastructure projects

Revenue by business unit



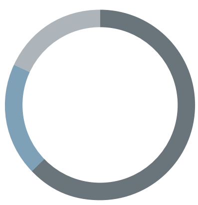
- Frankipile 42%
- Piling Contractors 34%
- Vibro-Pile 18%
- Keller Ground Engineering 6%

Who and where we are
In the UK, Keller operates as Keller Ground Engineering, Phi and Systems Geotechnique. Together, they have a national presence, offering an extensive range of ground engineering solutions.

Achievements
- Record profits
- Strong Phi contribution
- Systems Geotechnique acquisition (April)
- Extension of regional presence

Priorities for 2008
- Exploit business synergies
- Further expand product range
- Continue growth of repeat business

Revenue by business unit



- Keller Ground Engineering 63%
- Phi 19%
- Systems Geotechnique* 18%

* Nine months only

Year at a Glance

January

Our Middle East business got off to a good start in January, when it was awarded the first of two contracts for foundation works at Al Raha Beach. Throughout 2007, it undertook sand compaction and installed stone columns on reclaimed land as part of this luxury leisure and residential development along the highway between Abu Dhabi and Dubai.

February

February marked the start of works at the new Grand'Rivière Harbour at Martinique, West Indies where Keller was involved in the development of a new port facility. When completed, the port is expected to bring significant benefits to the local community which is dependent on the port for fishing and tourism.

March

March was a busy training month at Hayward Baker in the US.

The company held its 10th Engineers' Conference, attended by 104 engineers and project managers from Hayward Baker and a further 55 engineers from other Group businesses. This bi-annual event has become a focal point for experience-sharing and training. For the first time, the Conference included a young/new project managers' training course.

Also, the company's first Field Leadership Course was attended by 24 superintendants, who came together to learn about leadership skills for the jobsite. Such was its success, that this is now planned as an annual event.

July

Throughout the summer, Keller-Terra was engaged in extensive works at the Port of Huelva in southern Spain, including the largest area of compaction grouting works undertaken in Spain, as part of the port redevelopment project.

August

In August, we announced our largest-ever contract awards in Australia and the US – for piling and ground improvement works for the Gateway Upgrade in Queensland, Australia and foundations for the Chicago Spire in the US. Excellent progress was made on both in the second half of the year.

At Keller Ground Engineering in the UK, Eddie Evans, Operations Controller, celebrated 40 years' service with Keller. The depth of experience and commitment of our employees is one of the Group's key success factors.

September

The Keller Board makes a point of holding at least one Board meeting a year at an operational location. In September, it was the turn of our Middle East region to host the meeting, which included a visit to Palm Deira, the third of the palm-shaped, man-made islands being built off the coast of Dubai. The Board heard from local senior managers about their plans to capitalise on the growth opportunities in this booming construction market.

The visit was also an opportunity to celebrate the long service of Imtiaz Ahmed Syed, who is responsible for our Bahrain office and who was presented with his 25-year service award.

April

In April we completed the acquisition of Systems Geotechnique, a specialist contractor offering drilling and grouting services to the UK construction market. Following on from the Phi acquisition in 2006, the addition of Systems Geotechnique further broadens Keller's presence and product range, reinforcing its leading position in the UK market.

May

In Anderson's May newsletter, President Dan Cadenhead wrote about life since the company's acquisition in 2006: "Our new relationship with Keller has been a true blessing. Everyone at Keller has been very supportive of Anderson. They have worked hard with our administration staff and accounting teams to improve, and even speed up, the data made available to our management. They have helped promote a working relationship with some of our sister companies, including Hayward Baker. And they have offered the financial backing and clout that have made Anderson an even stronger company within our industry. Couple all of that with their global expertise and perspective and we are feeling like we are in great hands."

June

Manchester was the location for a site demonstration and seminar in June. Engineers and contractors from the north west of England were able to see one of our 'Vibrocat' rigs installing bottom feed stone columns for a new industrial unit.

Such events around the world are a popular way of sharing knowledge with our industry colleagues.

October

In the US in October we acquired HJ – the market leader in Florida in Continuous Flight Auger (CFA) piles, a growing product line which is new to Keller in the US. As well as giving Keller access to a new piling market in Florida, the acquisition enables the Group to accelerate the introduction of CFA piling in its other US businesses.

November

Late autumn saw Keller companies picking up a number of safety awards.

In Singapore, we won the title of Contractor of the Month under the Shell Houdini ECC Project safety incentive programme.

In France, we received an award from the Regional Professional Health Insurance for Alsace-Moselle for Best Health & Safety at Work Policy. We also learnt that we were to receive an award from the National Public Works Contractors' Association for our employee health and safety survey and the resulting improvement in safety awareness and behaviour.

All of the Group's US foundation contracting businesses received safety awards from the International Association of Foundation Drilling.

December

Engineers at Systems Geotechnique know all about the challenges of working on an operational railway. On a December Thursday morning, they received an order and design loads for two new rail gantries. By that evening, they had created the pile design and had placed an order for the steel. By Saturday morning, they had two crews and two rigs on site and were ready to go. After an initial delay whilst the client completed its preparations, all eight piles were installed by Sunday evening – well within the possession, so as not to delay Monday morning's commute.

"This third consecutive year of excellent growth reflects not only the strength of our markets but also the successful execution of our strategy"

Dr Michael West, Chairman

Chairman's Statement
Dr Michael West

I am pleased to report a record set of results, which build on the successes of the previous two years. This third consecutive year of excellent growth, which reflects not only the strength of our markets but also the successful execution of our strategy, has transformed the scale and profitability of the Group.

The Group reported a significant increase in both revenue and profit, particularly from the divisions outside of the US which now account for 44% of total Group profit, compared to only 28% two years ago. This has resulted in excellent profit contributions from a broad range of geographies.

Group revenue from continuing operations rose by 11% to £955.1m (2006: £857.7m) and our operating margin on the same basis reached an all-time high of 11.2% (2006: 10.4%). Profit before tax from continuing operations was up 23% to £103.2m (2006: £83.7m) and earnings per share from continuing operations grew by 24% to 97.6p (2006: 79.0p before the benefit of a one-off tax credit).

Cash flow and net debt

The very strong trading result was supported by an increase in cash generated from operations to £117.2m (2006: £98.3m). Net debt at the end of the year stood at £54.5m (2006: £38.6m), after expenditure of £34.5m on acquisitions.

We increased capital expenditure to £48.1m (2006: £29.4m), which enabled us to make further progress in modernising and expanding our equipment fleets, particularly in those parts of the Group offering the best growth potential.

Dividends

Last year, the Board reviewed the Group's dividend policy and indicated that we would increase the dividend by 15% per annum for the foreseeable future, subject to maintaining three times' dividend cover. We remain committed to this policy and also to continuing 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 12.0p per share (2006: 11.4p) which, together with the interim dividend paid of 6.0p (2006: 4.2p), brings the total dividend for the year to 18.0p, an increase of 15% on the previous year's 15.6p. The final dividend will be paid on 30 May 2008 to shareholders on the register at 2 May 2008.

Share buy-back programme

Given the continuing and growing strength of the Group's balance sheet, the Board proposes to use its existing authority to buy back up to 5% of the Company's ordinary shares during the remainder of 2008. The Directors believe that such a buy-back programme will be earnings per share enhancing and it will only be pursued on this basis. In any event, the Group will retain sufficient financial flexibility to be able to successfully pursue its strategy and to invest in opportunities for profitable growth. Any shares bought back will initially be held in treasury.

Strategy

Our strategy remains the same: to extend our global leadership in specialist ground engineering through both targeted acquisitions and organic growth.

In 2007, we made two further acquisitions: HJ in the US and Systems Geotechnique in the UK. The HJ acquisition gives us expertise in the growing technology of Continuous Flight Auger piles which is new to Keller in the US and further extends our clear leadership in this market. The acquisition of Systems Geotechnique, following on from the Phi acquisition in 2006, increases our presence and broadens our product range in the UK.

We also invested heavily in the fastest-growing parts of the Group, particularly in the Middle East, Eastern Europe and Australia. This was rewarded with strong organic growth. In addition, we continued our expansion into new geographic regions, with additions to our network of offices around the world and the performance of our first contracts in Brazil, Greece, Romania and Vietnam.

Our markets and competition

Local

Competition
Local competition is highly fragmented comprising many small businesses, often family-owned, with limited equipment capacity and few (or single) product lines.

Types of project
Standard foundations for small to medium structures, where ground conditions are relatively straightforward.

Keller's advantage in this segment
Our regional structure and agile organisation enables us to compete with local players for small-to-medium sized contracts.

We undertook around 8,500 contracts last year, of which 85% had a value of less than £250,000.

National
(regional in larger countries such as US, Australia)

Competition
In Europe, competition is often owned by general contractors. In the US and Australia, these services are usually outsourced. Independent national competitors tend to be privately owned.

Types of project
As local markets, plus foundations for larger structures and complex solutions for more difficult ground conditions.

Keller's advantage in this segment
We have a wide network of subsidiary companies and branch offices employing local people with knowledge of:

- national building codes
- local language and business culture
- local ground conditions

International

Competition
Few competitors can claim to have a truly global capability, strong financial credentials and the ability to offer a full product range.

Types of project
Very large scale, requiring capacity or expertise which may not be available in-country.

Often direct foreign investment, where funders or clients choose to use contractors with whom they have worked in other parts of the world.

Keller's advantage in this segment
Largest independent operator with a global presence.

Able to follow known customers into new geographic markets.

Can pool resources and expertise from around the globe.

In 2008, we shall continue to make strategic progress by allocating resources to markets which offer good growth and by taking advantage of the opportunities presented by our highly fragmented industry.

Makers
In the UK, after several years of underperformance, we have now substantially exited our non-core Makers business and its results have been shown as a discontinued operation. The combined trading losses and exit costs totalled £14.2m before tax, in line with the guidance previously given.

Our Employees
Some of the real challenges of the past few years have been to retain our best employees who, in strong markets, have been much in demand; and to attract and develop others who share our priorities with regard to safety, quality and productivity. The recent expansion of our business has demanded significant recruitment and skills training, particularly of new engineers and field operators. Most of this training is highly specialised and requires substantial input from our managers. They have risen to the challenge and devised new and increasingly effective ways of ensuring that our employees are properly equipped to do the excellent work we require of them.

The hard work, commitment and long service of our employees is not something which we take for granted and we are as determined as ever in our aim to provide a working environment in which all can prosper.

Our Board
We were pleased to appoint Mr Roy Franklin, OBE to the Board in July 2007. Roy's appointment strengthens the Board and brings extensive experience to Keller, particularly with regard to international and strategic matters.

Mr Keith Payne, who joined the Board in 1999, stood down at the end of January 2008 and I would like to thank Keith for the valued contribution he has made to the Group over the years.

Outlook
Whilst the likely impact of the current global economic uncertainty remains unclear, we believe that the increased scale of our business, particularly outside of the US, gives the Group better geographic balance and means that we now have greater protection against economic cycles. Furthermore, the complementary nature of our businesses and their increased ability to pool resources have strengthened the Group's capacity to participate in large-scale development projects around the world.

The US, which still accounts for around half of our revenue, remains our biggest market. Here, non-residential construction, which generates the vast majority of our US business, is forecast to show further modest growth in 2008[1], although residential is not expected to pick up for some time. Within non-residential, public infrastructure is likely to continue to grow at a good pace, whilst the private sector is expected to be broadly flat. Elsewhere, we expect our growth markets – particularly the Middle East and Eastern Europe – to remain strong in the medium term. In our other main regions, we do not foresee any significant change in market conditions overall.

In the first few weeks of 2008, new orders, tendering and trading have all been encouraging. At the end of January, we had a record order book, with all four regions ahead of the same time last year, giving us a good platform for the remainder of this year.

Dr Michael West
28 February 2008

[1] The American Institute of Architects Consensus Construction Forecast, 11 January 2008

Thames Wall, London

Justin Atkinson, Chief Executive (centre) and James Hind, Finance Director (right) review progress on a contract at Queenshithe Wharf, London.
Steve Worthington, South West Region Contracts Manager for Systems Geotechnique (left) describes the operations to stabilise part of the Thames River wall.

> "Our success in taking full advantage of the widespread strong demand for our products over recent years has been due to our ongoing investment in the Group"
>
> Justin Atkinson, Chief Executive

Operating Review
Justin Atkinson

2007 was another excellent year for the Group, in which we maintained, and built upon, the growth of the previous two years and demonstrated the benefits of our increased geographic and operational scale.

Conditions in our major markets

In the US, the public infrastructure and commercial sectors remained very strong, with 2007 non-residential expenditure as a whole around 16% higher than the previous year[1]. As expected, there was further contraction in the residential sector, with housing starts for single-family homes ending the year some 29% down on 2006[2]. Taken as a whole, construction expenditure in the US reduced, year on year, by around 2.5%[1].

Our principal European markets – France, Germany, Spain, UK and Eastern Europe – showed good growth overall, particularly in the infrastructure sector to which our businesses have a significant exposure.

Elsewhere, the Middle East and Australia both experienced unprecedented levels of construction activity.

[1] The US Census Bureau of the Department of Commerce, 1 February 2008

[2] Monthly housing starts published by the National Association of Home Builders in February 2008

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 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. First, we try to 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 continually assess and manage 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 £100k in 2007) 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 our culture and the opportunities for career growth. The processes for training and developing employees are discussed in the Social Responsibility Report on page 27. (KPI: staff turnover.)

Local Focus

Local focus – excellent service

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

Mockingbird Canyon, Riverside, California, US

Hayward Baker is installing soil mix columns to strengthen the soft, liquefiable ground on one side of the Mockingbird Canyon. This will provide support for the abutments to a new bridge.

Operations – US
Results summary and KPIs:
Revenue

2007	£473.2m
2006	£476.9m

Operating profit

2007	£61.6m
2006	£64.1m

Operating margin

2007	13.0%
2006	13.4%

Our growth compared with the growth of our markets

2007	8% (–2%)
2006	20% (5%)

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

Return on net operating assets

2007	40%
2006	47%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[2] (including goodwill acquired through acquisitions).

Staff turnover[3]

2007	11%
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 1 February 2008
[2] Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities
[3] The 2007 staff turnover rate comprises a rate of 7% for the US foundation contracting businesses and a rate of 26% for Suncoast

United States

Our US operations as a whole had another good year with total US revenue and operating profit ahead of last year by 8% and 4% respectively on a constant currency basis, despite a significant reduction in both revenue and profit at Suncoast. Translated into sterling, overall revenue was 1% down, whilst operating profit was down by 4%, reflecting the significant weakening of the US dollar.

Hayward Baker

2007 was another extremely busy year for Hayward Baker, the largest of our US foundation businesses. By strengthening the business infrastructure and refining its risk management and operating procedures, management delivered further improvement in contract performance, at a time of continued business expansion. In addition, they capitalised on the opportunities offered by a thriving marketplace to report record revenue and margins.

During the year, new offices were established in Houston, Kansas City, Minneapolis and San Diego, bringing the total network up to 22 offices, from which we worked in every state in the US.

Product and process development continued to have a strong focus, as illustrated by the introduction to the US of a special trench remixing tool (TRD), incorporating a large, chainsaw-like mixing blade. Hayward Baker is now using TRD on a small test section of the dyke at Lake Okeechobee in Florida. As one of three contractors selected to compete for additional sections of the dyke as they are released, and with the advantage of TRD, we are well-positioned to participate further in this potential long-term project.

Dry soil mixing and the vibro piers system, which were introduced to the market in 2005 and 2006 respectively, both made good contributions in 2007, as interest in these products continues to grow. Dry soil mixing proved to be an effective solution for providing load support at a biofuel storage tank site in Galena Park, Texas. Having previously been used for oil storage, the site was contaminated which would usually mean expensive pre-drilling and spoil removal before its reuse. As dry soil mixing uses the existing soil as part of the structural element and thereby eliminates the need to remove contaminated spoil, the client, with whom Hayward Baker had worked on other projects, was offered this as a cost-effective alternative solution.

Case, McKinney, Anderson and HJ

Our US piling businesses also had a very good year, with two familiar themes to their success: a pooling of their expertise and resources on contracts which call for time-critical delivery or the use of several different techniques; and investment in efficient, powerful and durable equipment to increase their capacity and capability for bigger and technically more demanding jobs.

Deep Experience

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.

Chicago Spire, Chicago, Illinois, US

Case and Hayward Baker are building the foundations for the 610-metre Chicago Spire, which is expected to be the tallest building in the US.

> **"The ability of our US foundation companies to pool their expertise and resources helps to make us the contractor of choice on large-scale development projects, requiring complex foundation solutions"**
>
> Bob Rubright, Managing Director, US

United States continued

One of the year's most notable piling contracts in the US was for the foundations of The Chicago Spire – a 150-storey, 610-metre high residential tower which is expected to be the tallest building in the US. Case is installing 34 steel-reinforced concrete caissons, 36 metres in length, drilled into bedrock, whilst Hayward Baker is constructing a 32-metre diameter sheet-piled wall to create a dry environment and to serve as the foundation for the core of the building. The contract, which is proceeding to plan and to budget, will complete in the first half of 2008.

Anderson, the West Coast business which we acquired in 2006, had an excellent first full year under Keller's ownership and is now well integrated into the Group, as is illustrated by the knowledge-sharing and co-operation on projects with our other US businesses. For example, Case and Anderson worked together on the foundation system for the replacement of the I-35 road bridge in Minneapolis, Minnesota, following the structural failure of the original bridge in August 2007. This high profile job needed to be completed within a very short timescale, which the two businesses were able to achieve by pooling their resources.

Once again, McKinney worked with Case on several large projects during the year – a sign of the valuable relationship which has developed between these businesses. McKinney is also currently working in joint venture with Anderson at the site of a new power plant for Formosa Plastics in Port Comfort, Texas, where their combined resources have secured the first two phases of the foundations work, with a potential for further awards as the project develops.

In the last quarter of the year we acquired the business and assets of HJ, the market leader in Florida in Continuous Flight Auger (CFA) piling, for an initial cash consideration of US$47.3m (£23.6m). The acquisition gives Keller much better access to the piling market in Florida, as well as enabling the Group to accelerate the introduction of CFA piling in its other US businesses. A contract in Pittsburgh, Pennsylvania, to install 1,700 CFA piles for the new Majestic Star Casino, is currently being undertaken jointly by HJ and Case, marking the first teaming up of HJ's CFA expertise with the resources of another Keller business.

Suncoast

Suncoast's performance was impacted by the continuing decline in the US residential sector. This was reflected in reduced revenue from both its slab-on-grade and high rise markets, although the reduction in slab-on-grade revenue, most of which comes from single family homes, was less than the market decline[3], indicating a further gain in market share.

Inevitably, this situation has led to pricing pressure. However, Suncoast's management has taken a very proactive approach to cost control, with production costs tightly controlled and headcount reduced by around 40% from its peak level in 2006. These actions, together with Suncoast's leading market position, mean that margin erosion has been partly contained and the business is better placed to weather a continued period of reduced demand.

[3] As indicated by single family home permits; data published by US Census Bureau of the Department of Commerce

Growth Platform

Growth platform – organic and acquisition growth

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

Szafarnia Street, Gdansk, Poland

Keller is using a combination of piling techniques to create deep foundations for luxury apartments in Gdansk's old town.

Operations – CEMEA
Results summary and KPIs:
Revenue

2007	£296.8m
2006	£255.0m

Operating profit

2007	£30.4m
2006	£17.9m

Operating margin

2007	10.2%
2006	7.0%

Our growth compared with the growth of our markets

Austria	
2007	–2% (9%)
2006	51% (8%)
France	
2007	–1% (6%)
2006	38% (10%)
Germany	
2007	–2% (7%)
2006	10% (7%)
Poland	
2007	52% (26%)
2006	72% (15%)
Spain	
2007	15% (5%)
2006	16% (12%)

Definition and method of calculation
Year-on-year sales growth in local currency in Austria, France, Germany, Poland and Spain compared with absolute growth (defined as real growth plus estimated price inflation) in these major European construction markets (in brackets)[1].

Return on net operating assets

2007	33%
2006	24%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[2] (including goodwill acquired through acquisitions).

Staff turnover

2007	12%
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 November 2007
[2] Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

Continental Europe, Middle East & Asia (CEMEA)

2007 saw an excellent performance from our CEMEA business. Revenue was up some 16% and operating profit was almost 70% above the previous year, having more than doubled since 2005. This growth reflects the measures we have taken to improve the geographic balance of the Group: by targeting, and investing in, Eastern Europe and the Middle East; and in particular, by expanding our piling services, which had historically been under-represented in these regions.

The significant improvement in margin in part reflects the strength of CEMEA's markets, but also reflects strong risk management and a trend towards contracts with a higher in-house design element.

Continental Europe

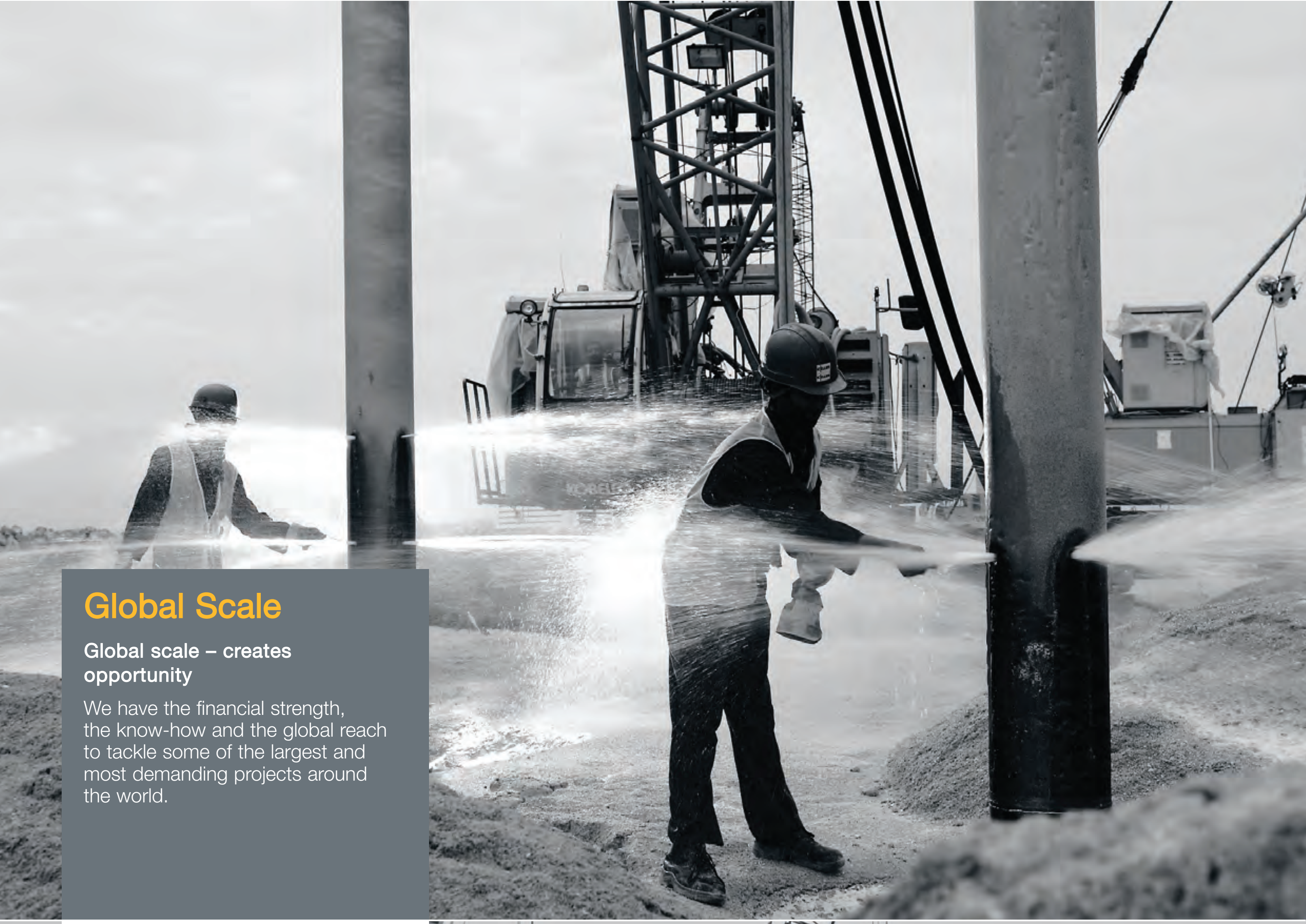
Our businesses within the more mature Continental European markets all fared well, undertaking their usual spread of contracts across the construction spectrum, including a significant element of public infrastructure projects.

In Central Europe, for example, we undertook stabilisation works for rail tunnelling projects in Amsterdam and Leipzig. The Leipzig tunnel goes directly underneath many of the city's historic buildings and, in order to avoid settlement, these buildings are being lifted by up to 10mm using a special grouting technique. Other key projects include a 'value engineered' remediation scheme for embankment works along the A2 motorway in Austria. This is one of an increasing number of schemes where our redesign, deploying specialist techniques not included in the original specification, reduces the overall programme time and cost.

In Spain, we saw an excellent margin recovery after a disappointing 2006. Our biggest Spanish contract in the year was for the provision of grouting works at the Port of Huelva redevelopment project. Our French business took advantage of opportunities at home and in French-speaking territories abroad, including the French West Indies, where it was involved in the development of the new Grand'Rivière Harbour at Martinique.

In Eastern Europe, where we have seen growth of nearly 50% per annum over the past three years, our Polish business once again led the way, with revenue boosted by the addition of piling services which now account for some 25% of its sales. However, our biggest contract in Poland was for the provision of ground improvement works using jet-assisted wet deep soil mixing for the new A1 motorway between Sośnica and Bełk. Under the watchful eye of the Polish management, the fledgling business in Ukraine made a small profit, establishing its reputation in what, over the longer term, could become a significant market.

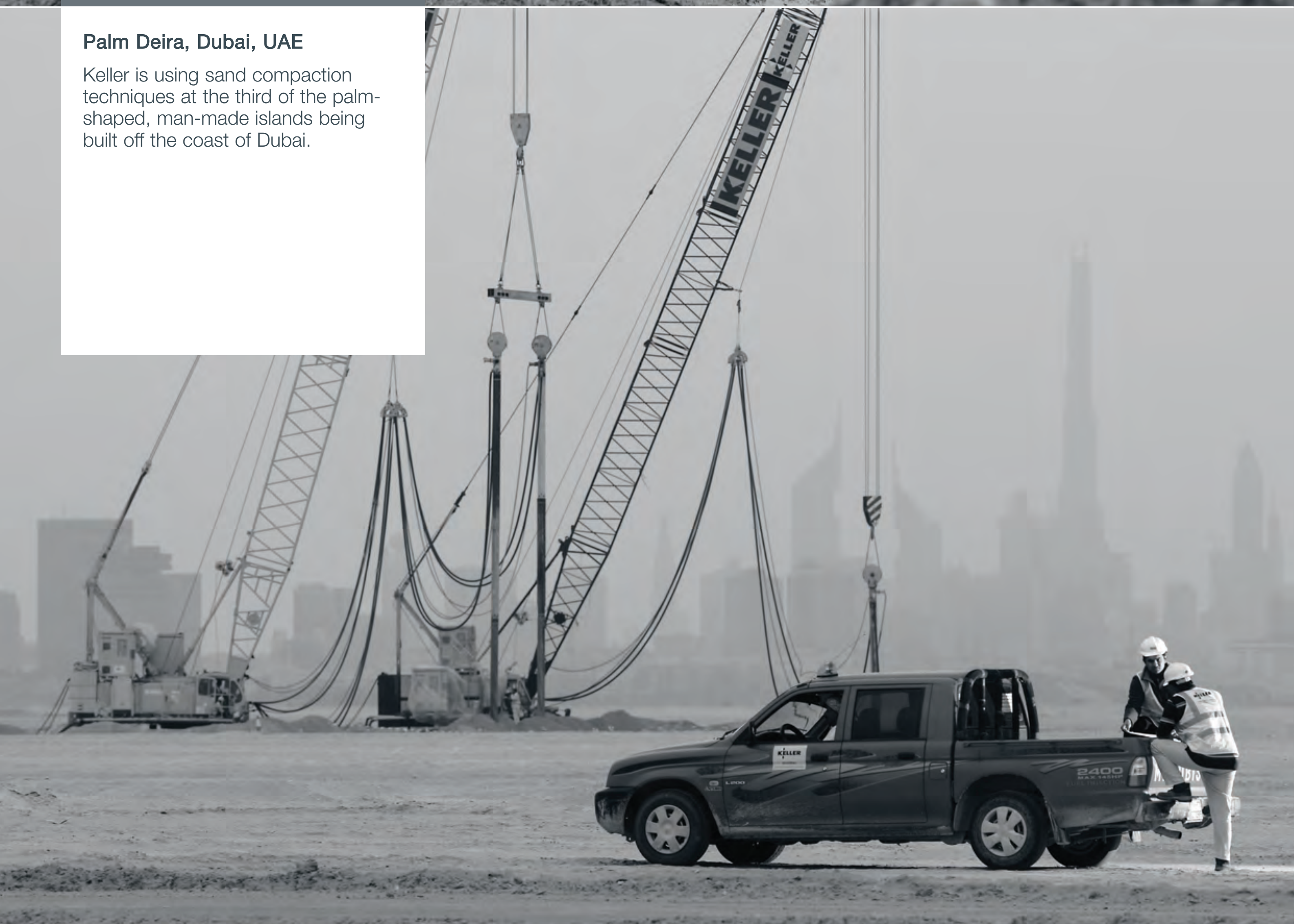
Elsewhere, we undertook our first work in Romania, where we prepared the foundations for a bio-diesel factory on behalf of a Portuguese client for whom we have worked on several similar projects in the past. This sure-footed approach to extending into new countries, where we initially link up with a client with whom we have an existing relationship, has stood us in good stead in the past and is likely to be a feature of further geographic expansion in this region.



Global Scale

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.



Palm Deira, Dubai, UAE

Keller is using sand compaction techniques at the third of the palm-shaped, man-made islands being built off the coast of Dubai.

> **"This growth reflects the measures we have taken to improve the geographic balance of the Group: by targeting, and investing in Eastern Europe and the Middle East"**
>
> Wolfgang Sondermann, Managing Director, Continental Europe, Middle East & Asia

Continental Europe, Middle East & Asia continued

Middle East

The growth of our business in the Middle East, where revenue has more than trebled since 2004, was an important feature of the Group's overall performance in 2007. Here, we worked on a number of major contracts, several of which have been for the provision of piling services, justifying our increased strategic focus in this area. These include contracts at the new Saudi Kayan petrochemical complex in Saudi Arabia and the Al Salaam Resort in Bahrain. At Palm Deira, the third of the palm-shaped, man-made islands being built off the coast of Dubai, our contract performance was helped by the deployment of our latest generation twin-paddled S700 vibrators, which we build for our exclusive use and which are an important factor in achieving high levels of productivity.

Asia

In Asia, we have recently added deep soil mixing technology to our offering of ground improvement projects and one of the contracts which we secured as a result was at Sentosa Island, Singapore, where we are working on the site of a resort which is being created partly on reclaimed land. Because of a shortage of sand in the region, the project is using excavated spoil and we have developed a ground treatment solution which treats this fill in situ, using deep mixing methods.

In both the Middle East and Asia, we have considerable experience in providing foundation solutions for complex industrial installations, such as petrochemical and power plants. Many more such developments are in prospect over the next few years and, as in the past, we expect our high quality execution and strong health and safety record to give us a significant advantage in competing for such work.

Sustaining our growth

Our success in taking full advantage of the widespread strong demand for our products over recent years has been due to our ongoing investment in the Group. We have long since recognised the need to sustain and grow our business by investing time and money in people, equipment and acquisitions. This means recruiting people with great potential, providing training, motivation and a safe work environment for our employees and reinforcing our strong relationships with industry partners. It means ongoing modernisation of our equipment fleets and updating our methods of work. It also means identifying businesses which are good strategic fits, acquiring them at sensible prices and ensuring that we deliver value from their integration into the Group. We will continue to invest in all these aspects of our business which we see as being crucial to our continued success.

Widest Range

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.

Gateway Upgrade, Brisbane, Australia

All four of our Australian companies, led by Piling Contractors, are involved in executing the foundations for the largest road and bridge infrastructure project in Queensland's history.

Operations – Australia
Results summary and KPIs:
Revenue

2007	£107.1m
2006	£65.1m

Operating profit

2007	£14.7m
2006	£7.0m

Operating margin

2007	13.7%
2006	10.7%

Our growth compared with the growth of our markets

2007	60% (7%)
2006	80% (8%)

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

Return on net operating assets

2007	67%
2006	52%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[2] (including goodwill acquired through acquisitions).

Staff turnover

2007	7%
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 September 2007
[2] Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

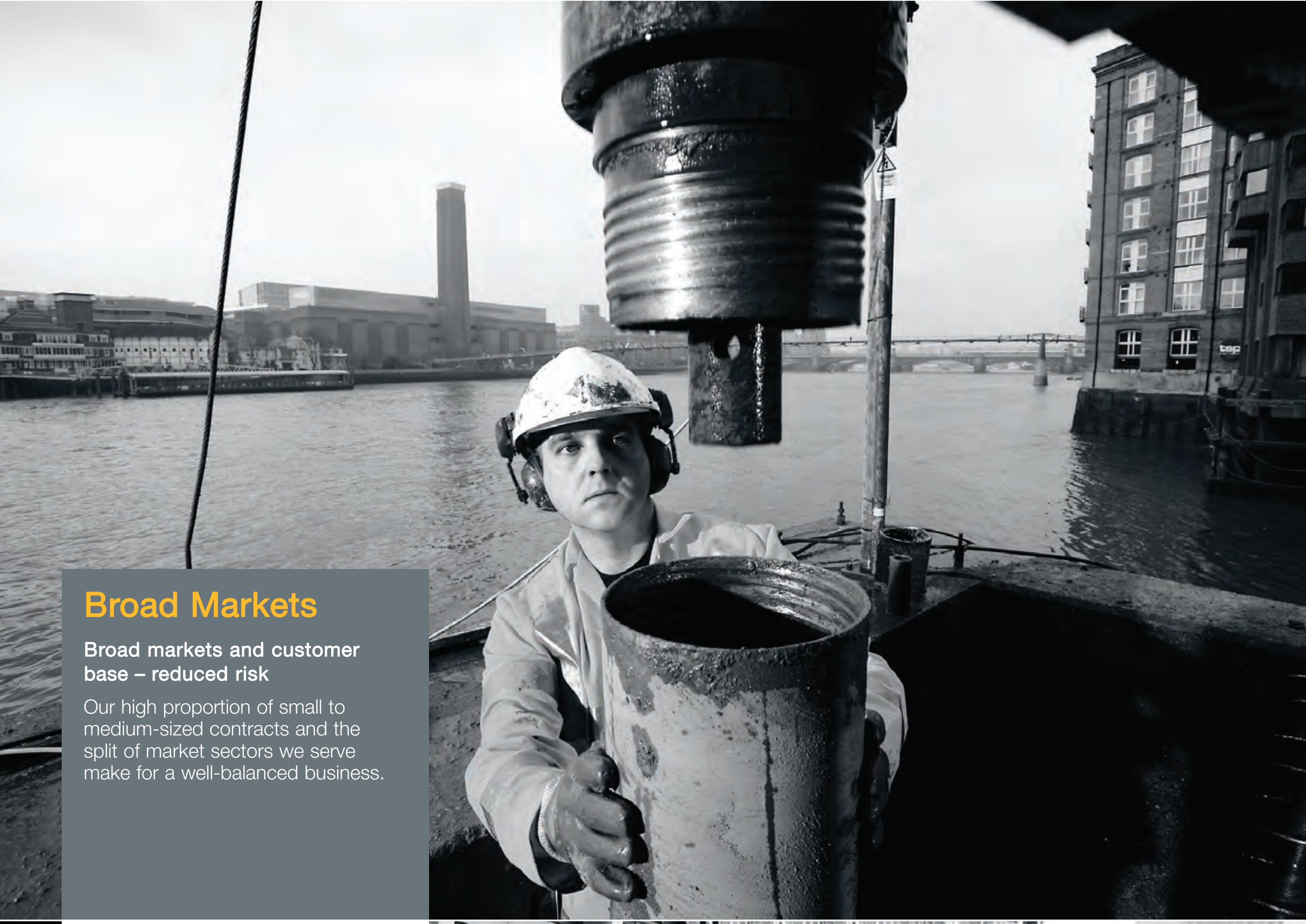
Australia

Helped by the successful acquisition of Piling Contractors in 2006, our Australian business has almost trebled, in revenue terms, since 2005. With a 2007 operating margin of 13.7%, it is now a clear leader in a very strong market.

Our most notable Australian project in the year was undoubtedly the Gateway Upgrade project in Brisbane, where all four of our businesses, in a joint venture led by Piling Contractors, are working together to execute the foundations for the largest road and bridge infrastructure project in Queensland's history. Our work involves a package of different techniques including bored piles, pre-cast piles and ground improvement works. Despite the scope of the work being extended over recent months, the job is still scheduled to complete in autumn 2008, as originally planned.

Following the success of our earlier contract at the Melbourne Convention Centre, we were invited back in 2007 to work on the second stage of the project known as South Wharf – a promenade and mixed use development. The biggest element of the job was installation of deep CFA piles, founded on various types of rock at depths of 30 to 40 metres. In addition, we undertook a range of enabling works which involved jet grouting, dry soil mixing and the installation of a slurry wall.

We have been involved in an exceptional number of large infrastructure projects in Australia over the past 18 months, including the Tugun Bypass, the North-South Tunnel, the Inner-Northern Busway and now the Gateway Upgrade. With a number of such projects still in the pipeline, we see this trend continuing in the medium term.



Broad Markets

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.

Queenshithe Wharf, London, UK

Systems Geotechnique is installing mini piles to stabilise the Thames River wall, using low headroom equipment to manoeuvre on this restricted access site.

Operations – United Kingdom
Results summary and KPIs (continuing operations):

Revenue

2007	£78.0m
2006	£60.7m

Operating profit

2007	£3.8m
2006	£3.4m

Operating margin

2007	4.9%
2006	5.6%

Our growth compared with the growth of our markets

2007	28% (7%)
2006	40% (4%)

Definition and method of calculation
Year-on-year sales growth compared with absolute growth (defined as real growth plus estimated price inflation) in the total UK construction market (in brackets)[1].

Return on net operating assets

2007	16%
2006	24%

Definition and method of calculation
Operating profit expressed as a percentage of net operating assets[2] (including goodwill acquired through acquisitions).

Staff turnover

2007	8%
2006	7%

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 November 2007
[2] Net operating assets excludes net debt, tax balances, deferred consideration and net defined benefit pension liabilities

United Kingdom

The UK results benefited from a good contribution from Phi, which we acquired in 2006 and whose retaining wall systems have proved to be very complementary to the other solutions offered by our UK business.

At a development of industrial units at Hemel Hempstead, where differing soil conditions and very uneven ground limited the amount of usable space, Phi's retaining walls were used in conjunction with vibro stone columns and CFA piling. Our innovative design solution, using these three techniques, is thought to have extended the usable ground by around 20%.

As in previous years, foundations for distribution centres featured within KGE's diverse contract portfolio and one of these, for Amazon in Swansea, used a combination of vibro stone column and dynamic compaction ground improvement techniques to deliver a cost-effective solution within an extremely tight deadline. Despite June and July being the wettest months in the region since records began, causing many logistical problems across the site, our work was completed well within schedule and the facility was operational by October, as planned.

2007 marked the start of what we anticipate will be a steady stream of work related to London's 2012 Olympics. We carried out ground improvement works for the construction of warehouses which were then used to relocate businesses from Stratford Park, the main site for the Olympics. In addition, we installed anchors to retain the new Prescott Lock, which will create a 'green gateway' for barges entering the Olympic Park, helping to eliminate up to 1,000 lorry journeys a week from local roads.

In April, we completed the acquisition of Systems Geotechnique for an initial consideration of £9.1m, which now gives us a lead in the drilling and grouting sector. We have been impressed with the strengths of the business in terms of its people, equipment and design-and-construct know-how and it is encouraging to see the good co-operation which has developed between Systems and the rest of our UK business.

Makers
Following a strategic review of our structural refurbishment business in the first half of the year, we announced at the time of our interim results that the various divisions of Makers would be sold or discontinued, as appropriate. As we anticipated, this has been a difficult process, but it is now substantially complete, with all four divisions sold for a nominal consideration and with the vast majority of employees' jobs preserved.

The pre-tax one-off charge in the second half of the year was £8.9m, which is in line with the guidance we gave with our interim results announcement in August and results in a total loss before tax for the full year of £14.2m. After tax, the loss was £10.5m.

Justin Atkinson
28 February 2008

"Group revenue increased by 11% in the year to £955.1m, reflecting strong organic growth in most of the Group's main markets, together with a good contribution from acquisitions"

James Hind, Finance Director

Financial Review
James Hind

2007 was another outstanding year for Keller, with revenue, profits and margins from continuing operations all again at record levels. These results exclude Makers, which has been treated as a discontinued business.

Trading results (continuing operations)
Group revenue increased by 11% in the year to £955.1m, reflecting 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 adversely influenced by fluctuations in foreign currency exchange rates. The average US dollar exchange rate against sterling was US$2.00, 9% weaker than in 2006, while the average euro exchange rate weakened slightly from €1.47 to €1.46. Stripping out the effects of acquisitions and currency movements, the Group's 2007 revenue was 7% up on 2006.

EBITDA was £125.8m, compared to £105.1m in 2006. Operating profit was £107.4m, up from £89.3m in 2006, despite profits in the US, the Group's largest market, being slightly down year-on-year when translated into sterling. In the US, an increase in the profits coming from the Group's foundation contracting businesses was offset by lower profits at Suncoast, the business most exposed to the US residential market. The benefit from the acquisitions of Anderson in October 2006 and HJ in October 2007 was matched by adverse currency movements.

The improvement in the Group operating profit was therefore largely derived from Continental Europe, Middle East & Asia (CEMEA), where profits increased by nearly 70%, and Australia where operating profit doubled, helped by the acquisition of Piling Contractors in August 2006. In the UK, profits were boosted by a good first full-year result from the 2006 Phi acquisition and the first-time contribution from Systems Geotechnique, acquired in April 2007.

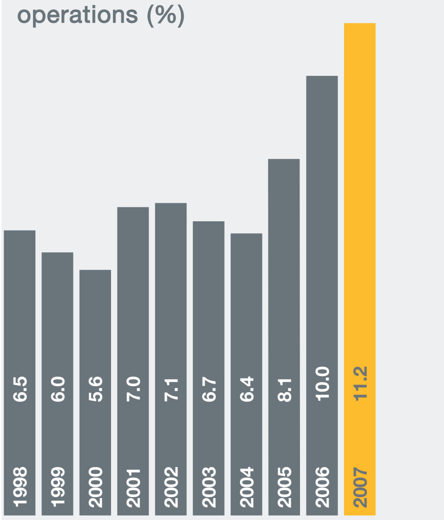
Adjusting for the effects of acquisitions and currency movements, the Group's operating profit was up 17% on 2006. Operating margins increased to another record high of 11.2% from 10.4% in 2006. As the Group grows, margins are benefiting from economies of scale; in 2007 overheads were 13% of revenue, down from 15% in 2004.

Interest
The net interest charge decreased from £5.6m in 2006 to £4.2m in 2007. Interest cover is very comfortable at around 30 times EBITDA.

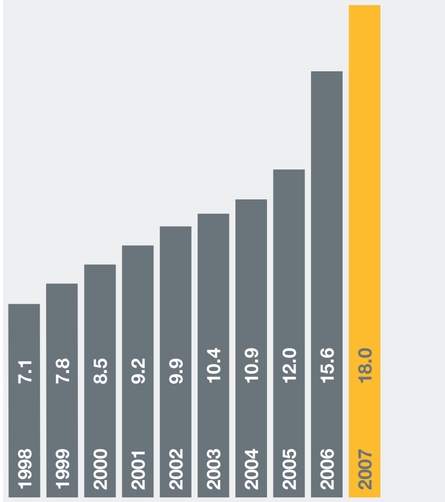
Tax
The Group's underlying effective tax rate was 35%, down from 37% in 2006, reflecting the fact that a higher proportion of the Group's profit was derived from lower tax countries. However, the Group's underlying effective tax rate remains relatively high compared to most UK domiciled businesses, as about half of the Group's profits are still earned in the US where the effective federal and state tax rates total around 39%.

Discontinued operation
In August, we announced the intention to exit from Makers in the UK and indicated that this would result in a one-off charge of up to £10m in the second half of 2007. This process is now substantially complete. The second-half pre-tax cost was £8.9m which, together with the first-half trading losses of £5.3m, brings the total 2007 Makers' loss before tax to £14.2m (loss after tax of £10.5m).

Makers has been treated as a discontinued operation in the consolidated financial statements. Consequently, its trading is not included in the headline revenue and costs on the face of the income statement. Instead, its post-tax result has been shown as a single-line item towards the bottom of the income statement. Makers' result is analysed in more detail in note 5 of the notes to the consolidated financial statements.



Operating margin from continuing operations (%)



Dividend per share (p)

Earnings and dividends

Earnings per share (EPS) from continuing operations (and before the benefit of the one-off tax credit in 2006) increased by 24% to 97.6p. Basic earnings per share, stated after the losses related to Makers, was 81.8p.

The Board announced last year that it intends to increase dividends by 15% per annum for the foreseeable future, subject to the dividends being three times covered. The Board is therefore recommending a final dividend of 12.0p per share, which brings the total dividend paid out of 2007 profits to 18.0p, a 15% increase on last year. The 2007 dividend is covered 5.4 times by EPS from continuing operations.

Cash flow

In 2007, the Group continued its excellent record of converting profits into cash. Net cash inflow from operations (excluding Makers) was £127.4m, representing 101% of EBITDA. The net cash outflow from operations relating to Makers was £10.2m. Year-end working capital, at £55.7m, was only £0.9m higher than the previous year, despite the two acquisitions in the year and the Group's strong organic growth.

Capital expenditure totalled £48.1m, more than 60% up on 2006. This significant increase is due both to the Group's substantial growth in recent years and to additional capital expenditure being committed to ensure continued long-term growth. 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 further work.

Financing

Year-end net debt increased to £54.5m from £38.6m at 31 December 2006, as a result of the additional capital expenditure and spending £34.5m on acquisitions (net of cash and debt acquired) in the year. Net debt at the year end was approximately 0.4 times EBITDA. Based on net assets of £212.1m, gearing was 26%, up only slightly from 24% at the beginning of the year.

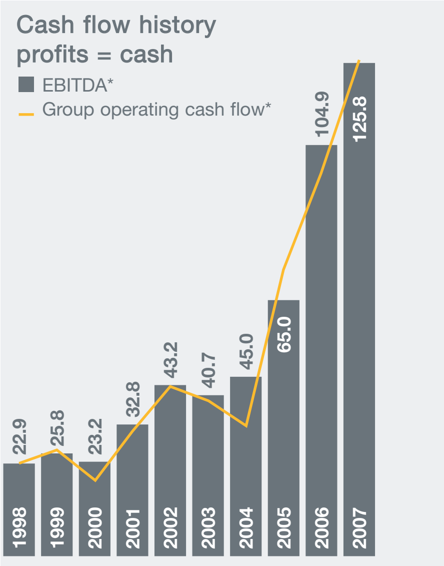
The Group's debt and committed facilities mainly comprise a US$100m private placement, repayable US$30m in 2011 and US$70m in 2014, and an £80m syndicated revolving credit facility expiring in 2011. At the year end, the Group also had other committed and uncommitted borrowing facilities totalling around £49m. The Group therefore has sufficient available financing to support our strategy of growth, both through organic means and targeted, bolt-on acquisitions.

Capital structure

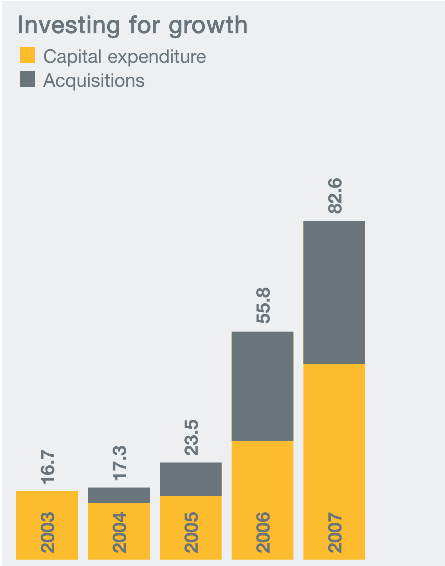
The Group's capital structure is kept under constant review, taking account of the need for, availability and cost of various sources of finance. Given the continuing strength of the Group's balance sheet, the Board proposes to buy back up to 5% of the Company's ordinary shares during the remainder of 2008. Such a share buy-back programme will be earnings per share enhancing and the Group will be left with sufficient financial flexibility to successfully pursue its strategy and to invest in opportunities for profitable growth. Any shares bought back will initially be held in treasury.

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.



* from continuing operations in 2007 only



Financial Review continued

The Group closed its UK defined benefit scheme for future benefit accrual with effect from 31 March 2006 and existing active members transferred to a new defined contribution arrangement. The level of contributions, currently set at £1.2m a year, will be reviewed at the next actuarial valuation, which will be as at April 2008.

The 2007 year-end IAS 19 valuation of the UK scheme showed assets of £26.8m, liabilities of £31.4m and a pre-tax deficit of £4.6m.

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.

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. 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.

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 2007, there were no material forward exchange contracts outstanding (2006: 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.

James Hind
28 February 2008

"The Board's role is to ensure that appropriate policies and systems are in place to identify, monitor and manage the social, environmental and health and safety risks which are material to the Group's businesses and which are apposite to the geographies in which they operate"

Social Responsibility

The Board recognises that its responsibilities extend beyond financial results and related matters. Effective management of social and environmental risk is important to our corporate reputation and profitability.

The Board's role is to ensure that appropriate policies and systems are in place to identify, monitor and manage the social, environmental, ethical and health and safety risks which are material to the Group's businesses and which are apposite to the geographies in which they operate. Each company within the Group is responsible for ensuring that it meets local statutory requirements as a minimum and is also encouraged to reflect identified best practice within the Group.

The Group does not have a single, 'one size fits all' approach to social responsibility (SR) issues and this largely reflects the Group's diverse geographic profile and the different business cultures within which it operates. However, there is a common set of ethical values which is predominant throughout our business practices and which is encapsulated in a new Code of Business Conduct, which we propose to communicate to all our key stakeholders in 2008.

Due to the nature of our business, we have for many years had robust health and safety monitoring. This year, we plan to extend our SR key performance indicators (KPIs), beyond the safety KPIs which are currently monitored by the Board, to incorporate some common measures of our environmental management. Further progress will be reported on next year.

Environmental matters are assuming an ever-greater importance for the Group. For instance, in Continental Europe, our senior management has contributed to the preparation of the Sustainability Charter of the European Federation of Foundation Contractors and is intending to adopt the principles and commitments contained within the Charter, which cover the environment, stakeholders and marketplace relations, as the basis for its own sustainability programme.

We see four main areas in particular where our business impacts on others and where we recognise our responsibilities to society:

- Our workplace and people
- Our marketplace and relationships with industry colleagues
- Protecting our environment
- Community relations

Our workplace and people

Health and Safety

The health and safety of all Keller Group employees is an important and integral part of our business activity. The Board is committed to providing a healthy and safe working environment for all our employees and contractors. Each divisional Managing Director is responsible for ensuring that health and safety policies and procedures are established and adhered to throughout their division. Managers and other employees also have a responsibility for implementing and complying with the health and safety policy of the business in which they work. Companies within the Group have procedures for accident investigation, in order to determine the causes of accidents, and to recommend and implement corrective actions.

Each business within the Group is committed to continual improvement in safe working practices and in health and safety training. Accidents are systematically reported and training procedures reviewed. Compliance with legal requirements is a minimum standard for all health and safety policies throughout the Group. The Board reviews health and safety on a quarterly basis and also monitors leading indicators such as accident rates, safety training hours and safety initiatives in place. The Board also reviews key indicators over a longer time horizon in order to identify any significant trends.

Safety Performance in 2007

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

"Several companies within the Group are now adopting a behavioural approach to safety management, working with all employees on changing attitudes to safety issues in the workplace and placing an even greater emphasis on accident prevention"

'Thinksafe', our UK safety programme, seeks to change attitudes to safety in the workplace.

Social Responsibility continued

employees and where 'accidents' comprise fatalities, major injuries (as defined by the Health & Safety Executive in the UK) and injuries involving more than three days' absence. The AFRs and AIRs for 2007 are shown in the table.

The key performance indicators show a significant improvement in safety performance in 2007 across all business units for which data is available.

Changes in the annual Accident Frequency Rate (AFR) and Accident Incident Rate (AIR)

	2007		2006	
	AFR	AIR	AFR	AIR
USA, excl. Suncoast (KFI)	0.48	850	0.56	1,009
Suncoast	0.35	895	0.47	1,075
CEMEA	1.72	3,548	2.93	5,684
UK – KGE	1.07	2,140	1.99	3,971
Australia	1.31	3,056	1.98	4,549

Excludes Anderson, Phi and Piling Contractors, for which we do not have full data.

Comparisons with Industry Standards

The common safety measure used in the North American construction industry is the experience modification rating (EMR). A low score indicates a good safety record. In 2007, the EMR for the US foundation businesses (together referred to as KFI) was 0.57 (2006: 0.59), against an industry standard rating of 1.00. It is pleasing to note that on this measure KFI's safety performance has improved every year since 2001, when it stood at 0.73.

We continue to try to find industry average statistics for the territories in which Keller's Continental Europe, Middle East and Asia (CEMEA) business operates. As yet, none are available.

In Australia, the closest industry comparators are the construction industry Frequency Rate and Incident Rate published by the National Occupational Health & Safety Commission (NOHSC).

The rates for 2005, which are still the most recent available, show an Incident Rate of 2,860 and a Frequency Rate of 1.45, but these statistics only reflect occurrences resulting in absence of one week or more, whereas our rates shown in the above table include all occurrences resulting in absence of three days or more.

The 2007 average AIR for members of the Federation of Piling Specialists, the most appropriate comparator group in the UK, was 2,263, indicating that the safety performance in 2007 of Keller Ground Engineering (KGE) at 2,140 was slightly better than the average for its sector of the industry.

During the year, several Keller companies received safety awards. In Singapore, we won the title of Contractor of the Month under the Shell Houdini ECC Project safety incentive programme. In France, we received an award from the Regional Professional Health Insurance for Alsace-Moselle for Best Health & Safety at Work Policy. Keller France also received an award from the National Public Works Contractors' Association for its employee health and safety survey and the resulting improvement in safety awareness and behaviour. Also, all of our US foundation businesses received safety awards from the International Association of Foundation Drilling.

Several companies within the Group are now adopting a behavioural approach to safety management, working with all employees on changing attitudes to safety issues in the workplace and placing an even greater emphasis on accident prevention. In the UK, this is being driven by the 'Thinksafe' initiative, which includes safety awareness training for everyone; the development of safety coaches and mentors on site and in offices; and the introduction of a safety element in the bonus programme.

Superintendents at Hayward Baker attend a Field Leadership Course to learn leadership skills for the jobsite.

Sharing knowledge with industry colleagues, who observe our ground improvement techniques in action at a site in Northern Ireland.

Training and Communicating with Employees

Throughout the year, businesses within the Group communicate regularly with all their employees using a number of forums and media channels. These include company newsletters, consultative councils, suggestion schemes, electronic messaging as well as informal, company-wide social events. We encourage a two-way dialogue with all employees, and provide channels for feedback and comment on the Group's activities. Companies within the Group provide employees with advice on technical developments within our sector, and also support membership of professional associations.

All companies in the Group undertake a wide range of technical training and typical examples of this can be found in our European business where, during 2007, we introduced a 'Drivers' Licence' for machine operators. Having put some 100 operators through the course in Austria, the scheme is now being rolled out in other countries.

Our European business has also recently developed the Keller Academy, for the training of young engineers. The programme incorporates a significant element of practical training in specific geotechnical subjects. Around a dozen engineers from several countries attend the course which is held twice a year and their progress is followed up once they have returned to their own countries.

The Group continued to undertake significant non-technical management training throughout the year, using a number of different management development programmes. These included learning modules for local managers, strategic development programmes and executive programmes for the senior management teams.

Annual Innovation Award Scheme

During the year KGE introduced an Annual Innovation Awards Scheme to encourage employees to put forward ideas which will contribute towards increasing efficiency, quality, productivity or safety within the workplace. Three cash awards are made annually for the best ideas.

Our marketplace and relationships with industry colleagues

Group companies take a leadership role within their industry by providing employees, customers, suppliers and potential employees with technical papers, seminars, field trips and site visits. Staff from companies throughout the Group maintain close contact with certain universities in order to share best practice and provide examples of their leading edge engineering excellence.

For example, whilst working recently on a contract in Northern Ireland, KGE organised a special visit to the site for students from Queen's University, Belfast in order to show its specialist rigs in action. The following day a seminar and site demonstration visit was held for 35 local engineers.

Many of our senior managers take a leading role in the geotechnical construction industry's professional associations and activities around the world. They are involved in writing building codes, specifications, and guidelines, as well as making presentations at seminars, teaching short courses and researching new construction methods.

In September 2007, for example, the Western region of Hayward Baker ran two highly successful ground modification seminars focusing on the treatment options available for soft soils. Each seminar focused on the exchange of best practice and leading edge information and advice. This was followed by a problem-solving session in which the several groups of attendees worked to develop a solution to a real-life problem.

Protecting our environment

Environmental management is an essential part of our approach to good business management, particularly as the Group's construction-related activities can have direct environmental impacts. Costs of

Left: Suncoast's Wafflemat can reduce CO_2 emissions by up to 20% compared with conventional slab foundations.

Right: Stockton, California is one of several ethanol plant sites at which we worked last year.

Social Responsibility continued

waste disposal, energy and construction materials are all increasing, so managing our environmental inputs and outputs is also integral to reducing site operational costs and increasing efficiency.

Going forward, we will be focusing environmental management actions in four key areas of our businesses:

- Reducing site waste
- Reducing the use of site fuel and company car/van fuel
- Reducing our operational energy consumption
- Reducing our paper usage and increasing our recycling

All four priority areas also mean we can make reductions in our Group Carbon Footprint. In the UK, our businesses are starting to develop systems for measuring and monitoring their output of carbon dioxide emissions (CO_2) and setting targets to reduce this on an annual basis. In addition, these companies are establishing working groups in order to share ideas and best practice and to develop environmental KPIs, through which our progress in reducing our carbon footprint can be evaluated.

In the US, Hayward Baker, the largest of our US foundation businesses, is reviewing its equipment fleet and ensuring that new machines operate with increased efficiency, burning less fuel and emitting fewer emissions. An awareness campaign is helping to remind Hayward Baker's staff of their 'turn it off' rule, which aims to spread best practice in waste avoidance and energy efficiency in operational procedures throughout the company.

In addition to trying to reduce their own operational environmental impacts, companies within the Keller Group are engaged in a variety of techniques which reduce the environmental impacts arising from the construction process. They include:

Stone Columns and Environmental Stone Columns

Stone columns, using only inert stone, are generally considered to be environmentally friendly alternatives to the steel or concrete products for which they are often substitutes. Not only are steel and concrete more expensive, but they also have additional environmental impacts in terms of higher carbon dioxide emissions. Increasingly, stone columns use recycled aggregates, which, for example, made up approximately 25% of our aggregate requirement in England in 2007.

Now, in addition, environmental stone columns have been developed in the UK by KGE for use in the treatment of contaminated land. The column's unique design and material content prevent the seepage of contamination via rainwater into uncontaminated, underlying ground.

Driven Cast in Situ Piling, Dynamic Compaction and Soil Mixing

Like stone columns, some of the Group's other most commonly used techniques – including driven cast in situ piling, dynamic compaction and soil mixing – avoid the creation of spoil from the ground. This in turn, eliminates transport movements to and from landfill sites. These systems are particularly relevant where toxic matter is contained within the ground and where materials can remain in situ, rather than be removed for treatment and disposal.

Soft-faced Reinforcing Systems

Phi's soft facing reinforcing systems are often offered as an alternative to sheet piling. These systems also reduce the need to remove soil and replace with expensive filling. Instead, softwood type timber can be used to create steeper retaining walls, enabling a greater area of land to be used for building. All of our timber is from a renewable material resource, with a lower carbon footprint compared to more traditional piling systems.

Wafflemat System for Concrete Slab Foundation

Suncoast offers a foundation forming system which reduces the amount of concrete required for slab foundations. This in turn reduces climate change emissions by as much as 20% when compared to conventional foundation systems which have higher concrete input.

Top: At Sentosa Island, Singapore, we are treating excavated spoil, which is supplementing a dwindling supply of local sand.

Bottom: KGE is supporting SIM UK in a project to engage Nairobi's street children in chicken farming.

"In addition to trying to reduce their own operational environmental impacts, companies within the Keller Group are engaged in a variety of techniques which reduce the environmental impacts arising from the construction process"

Companies within the Keller Group also undertake projects which deliver environmentally beneficial solutions, and which complement the Group's product offering. These projects include land reclamation schemes, soil erosion control, flood control, decontamination, brownfield land preparation and foundations for renewable energy facilities. Some examples from around the Group in 2007 include:

Snyder Wind Farm, Texas, US
We provided the foundation excavation for 21 highly efficient wind turbine generators which were erected in West Central Texas at a record setting pace. Each turbine required a minimum five-metre diameter and 12-metre deep shaft.

Ethanol Plant Construction, California, US
We provided stone and soil mix columns as foundation support for a new ethanol production plant in Stockton, California. The columns will also mitigate seismic-induced liquefaction as part of a tailor-made, foundation solution which will provide over 6,000 square metres of treated ground to support this plant.

Soil Decontamination Project at Port Everglades, Florida, US
We provided foundation support for 13 planned petroleum storage tanks at Port Everglades, where the ground was underlain by contaminated organic soil. Using the mass dry soil mixing method, we treated over 36,000 cubic yards of the contaminated soil, taking care not to disturb a troop of wild monkeys which had made their home in the area.

Land Reclamation at Sentosa Island, Singapore
We have worked on several land reclamation projects in the Far East, one of which, at Sentosa Island, is using excavated spoil, because of a shortage of sand in the region. We have developed a ground treatment solution which treats this fill in situ, using deep mixing methods.

Community relations

Companies within the Keller Group often play an important role in their communities. While much of our work is undertaken in remote areas, away from local populations, our companies often support their employees when they engage with community groups and local charities. This brings direct benefits to the business, in terms of employee satisfaction and development, as well as to the communities with which they work.

For example, employees at KGE are providing financial support to the charity SIM UK, which works with deprived street children in Nairobi, Kenya. Keller has donated funds and helped plan a specific project for chicken farming at a site outside Nairobi. Here former street children will be able to raise poultry, thus enabling them to live self sufficiently in a safer and more comfortable environment.

Anderson are working with Rescue Task Force, a not for profit international organisation which is helping injured American troops returning from war. Anderson is providing backpacks containing personal items for wounded soldiers which aid recovery.

Similarly, much of the Group's charitable giving is in conjunction with its employees, whether it is through matched giving schemes, and sponsorship of employees' activities or giving time off to enable employees to participate in voluntary projects of their own choice.

Businesses within the Keller Group continue to work to ensure that they meet their corporate responsibility objectives across a diverse range of markets, and with many and varied stakeholders.

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. Member of the Nomination Committee. Age 47.

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 43.

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 56.

4 Dr Wolfgang Sondermann
Managing Director, CEMEA
Joined the Group in 1986. Appointed Deputy Managing Director, CEMEA in 1998 and Managing Director in 2001. Appointed to the Board in 2003. Age 57.

Board of Directors
Non-Executive Directors

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 70.

8 Roy Franklin OBE
Non-executive Director

Appointed to the Board on 19 July 2007. Member of the Remuneration, Audit and Nomination Committees. From 1997 to 2005 he was Chief Executive of Paladin Resources plc, following directorships with Clyde Petroleum plc and BP. Chairman of Bateman Litwin N.V. and Novera Energy plc and a Non-executive Director of Santos Limited (Australia) and StatoilHydro (Norway). Age 54.

6 Pedro López Jiménez
Non-executive Director

Appointed to the Board in 2003. Mr López Jiménez is Chairman of GTCEISU Construcción, S.A. and Union Fenosa, S.A., Vice-president of Dragados, S.A. and Indra Sistemas, S.A. and a Board Member of ACS Actividades de Construcción y Servicios, S.A. and Compañía Española de Petróleos, S.A. He 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 66.

9 Gerry Brown
Non-executive Director

Appointed to the Board in 2001 and became Senior Independent Director on 1 February 2008. 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 Limited. His executive career included directorships with Exel Logistics plc, TDG plc and Tibbett & Britten plc. Age 63.

7 Richard Scholes
Non-executive Director

Appointed to the Board in 2002. Chairman of the Audit Committee since October 2007 and a member of the Remuneration and Nomination Committees. Mr Scholes was a Director at Dresdner Kleinwort from 1986 to 2001. He is a Non-executive Director of Chaucer Holdings Plc and Marshalls plc. Age 62.

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 Limited and M2 Training Limited and a Non-executive Director of Thames Estuary Airport Company Limited. Age 57.

Keller Group plc
Financial Contents

Directors' Report

The Directors present their report, together with the audited accounts for the year ended 31 December 2007.

Business review and principal activities

The Group's principal activity is specialist ground engineering.

A review of the Group's progress and future prospects may be found on pages 9 to 21. A summary of the Group's markets and competitive environment is given on page 7.

Principal risks and uncertainties and key performance indicators

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

Results and dividends

The results for the year, showing a profit before taxation of £103.2m (2006: £83.7m), are set out on page 48.

The Directors recommend a final dividend of 12.0p per share to be paid on 30 May 2008, to members on the register at the close of business on 2 May 2008. An interim dividend of 6.0p per share was paid on 1 November 2007. The total dividend for the year of 18.0p (2006: 15.6p) will amount to £11.9m (2006: £10.3m).

Directors

The rules governing the election and re-election of directors are set out in the Corporate Governance Report on page 43. The powers of directors of the Company are as set out in the Company's articles of association.

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, with the exception of Mr Franklin who was appointed on 19 July 2007. In addition, Mr Keith Payne, served on the Board throughout the year, retiring on 31 January 2008. 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

Mr Atkinson, Mr Brown and Mr Scholes will retire by rotation at the Annual General Meeting and will offer themselves for re-election. In addition, Dr West, who has served on the Board as a Non-executive Director for ten years, and Mr Franklin, who has been appointed since the last Annual General Meeting, will retire and offer themselves for re-election and election respectively.

Share capital and substantial shareholdings

The structure of the Company's share capital, including the rights and obligations attaching to shares, is given in note 24 to the consolidated financial statements.

Details of shares allotted by the Company during the year appear in note 24 to the consolidated financial statements.

At 28 February 2008, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its issued ordinary share capital:

	Number of shares held	Percentage of issued share capital
J P Morgan Chase & Co.	6,606,758	10.0%
Barclays Global Investors	3,983,452	6.0%
GTCEISU Construcción, S.A.	3,691,985	5.6%
Legal & General Investment Management	3,406,541	5.1%

Research and development

The Group continues to have in-house design, development and manufacturing facilities, where staff work closely with site engineers 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 us and, where applicable, the development costs are included in the cost of the equipment.

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.

Management of financial risks

The Group's financial risk management objectives and policies are discussed in the Financial Review on page 24.

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 2007 the Group had 58 days' (2006: 59 days') purchases outstanding.

Directors' Report continued

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 £9,000 (2006: £7,000) with charitable donations of £88,000 made by the Group as a whole.

Social responsibility
The Group's approach to social responsibility is discussed in the Social Responsibility Report on pages 25 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 79.

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 2008

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 2008.

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 during the year are given below. The Committee was chaired by Mr Brown and all members served on the Committee throughout the year, except where indicated.

Committee members

E G F Brown (Chairman)
Dr K Bond
R A Franklin (Appointed 19 July 2007)
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 90% 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 all members of the Remuneration Committee 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.

The details of the component parts of the remuneration package for Executive Directors 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.

Following an in-depth benchmarking exercise which was used to assist the Committee to re-position Executive Directors' salaries in 2007, salaries for Executive Directors from 1 January 2008 have been increased by 5%, which compares with an average increase of around 6% for FTSE 250 companies generally.[1]
In determining the 2008 salaries, the Committee has also taken into account remuneration levels and trends across the Group.

[1] NBSC advice to the Committee

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 maximum bonus potential is 150% of basic annual salary. 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 and will be deferred for a period of three years. The deferred element of the bonus will be satisfied in cash, subject to continued employment over the deferral period. The amount of cash payable will be adjusted in line with movements in the Company's share price over the three-year period commencing on the last day of the year to which the bonus relates.

The 2008 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 2008 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.

Actual financial performance targets for 2008 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, e.g. 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 2008 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 2008 and has decided to retain the same targets as were adopted in 2007, notwithstanding the high base line from which performance will be measured, following three years of exceptionally high performance.

The following EPS growth targets will apply for awards granted in 2008:

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 2008, 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, with the return at the end of the period being the average over the last three months of the performance 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.

The Committee expects that performance share awards granted since March 2005, and to be granted for the foreseeable future, will be satisfied by shares purchased in the market.

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, 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 any company. None of the Executive Directors held external appointments during 2007.

During the year, £49,000 was paid to Mr T Dobson (including benefits of £7,000 and pension contributions of £3,000), £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.

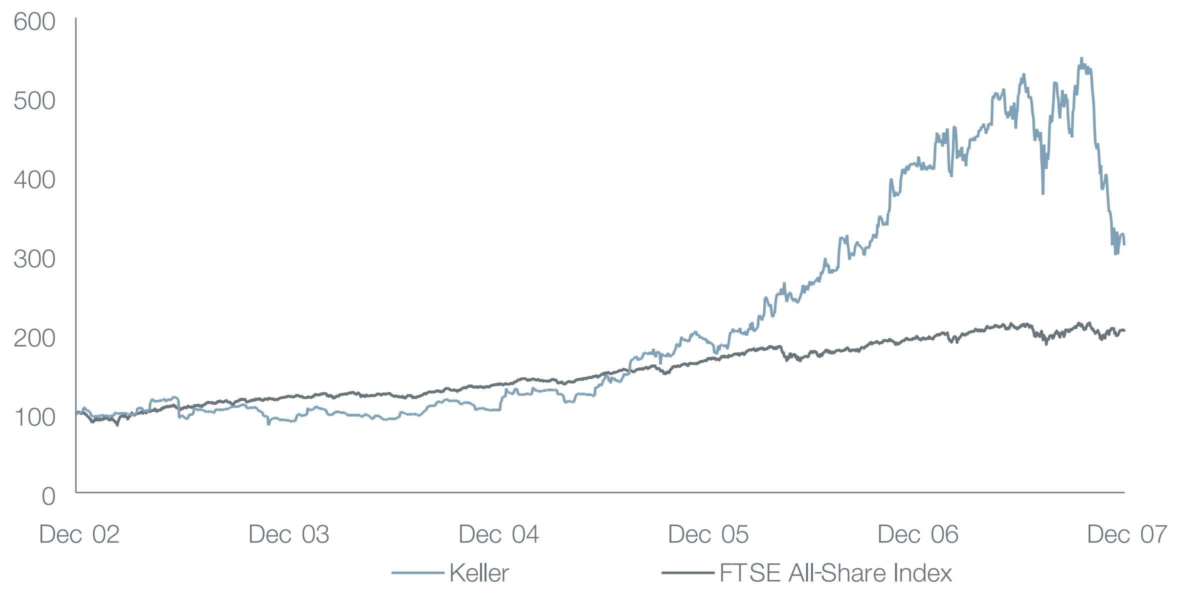
Director	Date of engagement letter
Dr K Bond	24 November 2003 (renewed 25 January 2007)
E G F Brown	18 January 2002
R A Franklin	19 July 2007
P J López Jiménez	21 January 2003
R T Scholes	8 February 2002
Dr J M West	8 June 1998

The determination of the Non-executive Directors' remuneration, including that of the Chairman, has been delegated by the Board to the Executive Directors, 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 2007, of £100 invested in Keller on 31 December 2002 compared with the value of £100 invested in the FTSE All-Share Index.

Total Shareholder Return



Audited information
Directors' emoluments for the year ended 31 December 2007

	Basic salary 2007 £000	Fees 2007 £000	Benefits 2007 £000	Annual bonus 2007 £000	Other 2007 £000	Total emoluments 2007 £000	Total emoluments 2006 £000
Executive							
J R Atkinson	375	–	16	375	112	878	738
J W G Hind	247	–	11	247	–	505	461
R M Rubright	275	–	8	275	–	558	693
Dr W Sondermann	230	–	10	230	–	470	384
Non-executive							
Dr K Bond	–	36	–	–	–	36	35
E G F Brown	–	41	–	–	–	41	40
R A Franklin	–	16	–	–	–	16	–
P J López Jiménez	–	36	–	–	–	36	35
K F Payne	–	41	–	–	–	41	40
R T Scholes	–	38	–	–	–	38	35
Dr J M West	–	110	18	–	–	128	115
	1,127	318	63	1,127	112	2,747	2,576

The table above includes a salary supplement of £112,000 paid to Mr Atkinson in lieu of a Company pension contribution in 2007 (2006: £73,000 for the period 1 April to 31 December 2006) following the closure of the Scheme to future benefit accrual on 31 March 2006.

Included in the 2006 emoluments for Mr Rubright is a payment of £272,000 made into the US Retention Bonus Plan on behalf of Mr Rubright. No such payment was made in 2007 and no further payments are planned.

The fees amounting to £36,000 shown above for Mr López Jiménez were paid to Fapindus, S.L. in respect of his services.

A maximum annual cash bonus of 150% of basic annual salary was set for the Executive Directors for the year ended 31 December 2007. The 2007 bonus targets for Mr Atkinson and Mr Hind were linked to the achievement of Group EPS, PBT and average net debt targets (up to 135% of salary); and to personal, task-based objectives (up to 15% of salary). The 2007 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 115% of salary); and to personal, task-based objectives (up to 15% of salary).

The baselines for the 2007 Group financial performance targets at which no bonus was payable (as adjusted for actual 2007 exchange rates) were PBT of £60.9m, EPS of 58.0p and average net debt of £53.0m. The financial performance targets attracting maximum bonus are considered commercially sensitive and are not, therefore, disclosed.

In addition to the amounts shown in the annual bonus column in the above table, deferred bonuses were awarded to the Executive Directors as follows: J R Atkinson: £56,250; J W G Hind: £37,050; R M Rubright: £82,500; and W Sondermann: £57,500. These amounts, which will be adjusted in line with movements in the Company's share price over the deferral period, will be paid in 2011, subject to continued employment.

The level of bonuses payable for 2007 reflects the exceptional results delivered.

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 2007 Ordinary shares	At 31 December 2006 Ordinary shares
J R Atkinson	**73,737**	44,329
E G F Brown	**10,000**	5,000
R A Franklin	**6,000**	n/a
J W G Hind	**20,000**	nil
P J López Jiménez*	**3,691,985**	3,691,985
K F Payne	**10,739**	10,739
R M Rubright	**40,000**	40,000
R T Scholes	**5,000**	5,000
Dr W Sondermann	**40,000**	62,230
Dr J M West	**1,348,000**	1,348,000

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

There have been no changes in Directors' shareholdings between the end of the financial year and 28 February 2008.

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 2007, amounted to 25,753 ordinary shares (2006: 54,253).

Directors' pension rights

In 2007, a pension of £156,000 was paid to Dr West, who retired in 1997, under the Scheme.

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

Director	2007 £000	2006 £000
J W G Hind	**44**	41
R M Rubright	**40**	14
Dr W Sondermann	**30**	30
Total	**114**	85

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	986	1,103	117	88	12	9	113
Dr W Sondermann	53	52	(1)	4	0.2	0.2	3

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

	Options held at 1 January 2007	Options granted during the year	Options exercised during the year	Options held at 31 December 2007	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
2 March 2007	**–**	41,713	–	**41,713**	100.0p*	02/03/10	01/09/10
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
2 March 2007	**–**	27,475	–	**27,475**	100.0p*	02/03/10	01/09/10
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
2 March 2007	**–**	32,200	–	**32,200**	100.0p*	02/03/10	01/09/10
Dr W Sondermann							
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
2 March 2007	**–**	25,955	–	**25,955**	100.0p*	02/03/10	01/09/10

No options lapsed during the year.
* 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; 7 March 2006: 445.0p; and 2 March 2007: 881.0p.
Mr Atkinson exercised an option over 25,000 shares on 20 December 2007, when the market value of the shares was 660p. All other option exercises during the year took place on 26 June 2007, when the market value of the shares was 1,006p. The aggregate gain on options exercised by Directors during the year was £1,619,371.

In the three-year performance period ended 31 December 2007 average real EPS growth exceeded 70% per annum and TSR ranked number one in the Construction & Building Materials Index, the TSR comparator group for the 2005 grant. Accordingly, the performance share awards granted on 8 March 2005 will be exercisable in full from 8 March 2008.

The market value of the shares at 31 December 2007 was 664.0p and the range during the year was 638.0p to 1170.0p.

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

E G F Brown
Chairman
Remuneration Committee
28 February 2008

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 2007, save as otherwise explained in the paragraph headed 'Compliance with the Code' on page 44, 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, except Mr Roy Franklin, who was appointed on 19 July 2007. The Board included at least four Independent Non-executive Directors throughout the year.

The Board considers all the Non-executive Directors, with the exceptions of Dr West and Mr López Jiménez, 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 López Jiménez 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 López Jiménez 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 Brown 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 full 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 the Middle East, giving the Board an opportunity to visit operational locations, to receive presentations and to meet some of the Group's senior managers.

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.

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, 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

After carrying out formal, questionnaire-based evaluations of the Board and its Committees in 2004 and 2005, and a more open, discussion-based exercise in 2006, the Board did not carry out performance evaluations in 2007. Instead, the Board felt that it was appropriate to wait until after the Board changes, which took place during the year and at the start of 2008, before taking a fresh look at its performance.

An evaluation exercise is being carried out in the first quarter of 2008, which will be reported in next year's Annual Report.

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

Relations with shareholders

Throughout the year, the Company regularly 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.

Board committees

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

	Scheduled Board meetings (8)	Remuneration Committee meetings (4)	Audit Committee meetings (4)
Dr J M West (Chairman)	8	n/a	n/a
J R Atkinson (Chief Executive)	8	n/a	n/a
J W G Hind (Finance Director)	8	n/a	n/a
R M Rubright (Executive Director)	8	n/a	n/a
Dr W Sondermann (Executive Director)	8	n/a	n/a
Dr K Bond (Non-executive Director)	8	2	4
E G F Brown (Non-executive Director)	8	4	3
R A Franklin* (Non-executive Director)	3	1	0
P J López Jiménez (Non-executive Director)	5	n/a	n/a
K F Payne (Non-executive Director)	8	4	4
R T Scholes (Non-executive Director)	8	3	4

Figures in brackets indicate the maximum number of scheduled meetings in the period.
*Appointed to the Board in July 2007.

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, Mr Scholes and, from the date of his Board appointment, Mr Franklin. 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 full Committee did not meet throughout the year. A sub-committee, comprising Dr West, Mr Brown and Mr Scholes, met on several occasions for the purposes of selecting external search consultants to assist in the recruitment of a new non-executive director; interviewing candidates for role; and making a recommendation to the Board.

Audit Committee
Dr Bond, Mr Brown, Mr Payne and Mr Scholes, were members of the Committee throughout the year and Mr Franklin was a member from the date of his Board appointment. All members of the Committee are Independent Non-executive Directors. The Committee was chaired by Mr Payne until October 2007, when the chairmanship passed to Mr Scholes. 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 2007, 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, recognising 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 existing structured programme of independent reviews 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 consolidated financial statements.

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

The Company has not, throughout the full year, met the requirement of the Code for at least half the board, excluding the chairman, to comprise independent non-executive directors. As previously stated, whilst under the Code Mr López Jiménez 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, 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. 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 market cycles, acquisitions, people, technical risks such as engineering and project management, control breakdowns, disruptions in information systems, natural catastrophe and regulatory requirements. The identified risks, and the controls in place to manage them, are subject to continual reassessment. The Audit Committee formally reviews this process once every two years.

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 risks 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 average time on site is around six weeks but larger contracts may extend over several months. 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.

d) Budgeting and forecasting
There is a comprehensive budgeting system with an annual budget approved by the Board. 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 2007 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, Operating Review and the Financial 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 Statement reflects the Company's compliance with the nine provisions of the 2006 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 2007 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 2007;
– 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 2008

Consolidated Income Statement
for the year ended 31 December 2007

	Note	2007 £m	2006 Restated* £m
Continuing operations			
Revenue	3	**955.1**	857.7
Operating costs	6	**(847.7)**	(768.4)
Operating profit	3	**107.4**	89.3
Finance income	8	**2.5**	1.9
Finance costs	9	**(6.7)**	(7.5)
Profit before taxation		**103.2**	83.7
Taxation before one-off tax credit		**(35.9)**	(30.7)
One-off tax credit		**–**	3.8
Total taxation	10	**(35.9)**	(26.9)
Profit for the period from continuing operations		**67.3**	56.8
Discontinued operation			
Loss from discontinued operation net of taxation	5	**(10.5)**	–
Profit for the period		**56.8**	56.8
Attributable to:			
Equity holders of the parent		**54.0**	55.7
Minority interest		**2.8**	1.1
		56.8	56.8
Earnings per share from continuing operations			
Basic earnings per share	12	**97.6p**	84.8p
Earnings per share before one-off tax credit	12	**n/a**	79.0p
Diluted earnings per share	12	**96.4p**	83.7p
Diluted earnings per share before one-off tax credit	12	**n/a**	78.0p
Earnings per share			
Basic earnings per share	12	**81.8p**	84.8p
Earnings per share before one-off tax credit	12	**n/a**	79.0p
Diluted earnings per share	12	**80.7p**	83.7p
Diluted earnings per share before one-off tax credit	12	**n/a**	78.0p

* See Note 2b) Basis of preparation regarding discontinued operation

Consolidated Statement of Recognised Income and Expense
for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Foreign exchange translation differences		**4.9**	(8.0)
Actuarial gains/(losses) on defined benefit pension schemes	30	**2.0**	(0.1)
Tax on items taken directly to equity	10	**(0.6)**	0.1
Net income/(expense) recognised directly in equity		**6.3**	(8.0)
Profit for the period		**56.8**	56.8
Total recognised income and expense for the period	25	**63.1**	48.8
Attributable to:			
Equity holders of the parent		**59.8**	47.9
Minority interests		**3.3**	0.9
	25	**63.1**	48.8

Consolidated Balance Sheet
as at 31 December 2007

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Intangible assets	13	**80.8**	57.5
Property, plant and equipment	14	**155.8**	114.6
Deferred tax assets	10	**9.2**	7.9
Other assets	15	**13.7**	8.8
		259.5	188.8
Current assets			
Inventories	17	**26.9**	25.5
Trade and other receivables	18	**273.6**	221.7
Cash and cash equivalents	19	**30.9**	25.2
		331.4	272.4
Total assets	3	**590.9**	461.2
Liabilities			
Current liabilities			
Loans and borrowings	23	**(7.6)**	(6.8)
Current tax liabilities		**(12.4)**	(9.4)
Trade and other payables	20	**(244.8)**	(192.4)
		(264.8)	(208.6)
Non-current liabilities			
Loans and borrowings	23	**(77.8)**	(57.0)
Employee benefits	21	**(14.6)**	(18.8)
Deferred tax liabilities	10	**(5.4)**	(6.2)
Other liabilities	22	**(16.8)**	(11.5)
		(114.6)	(93.5)
Total liabilities	3	**(379.4)**	(302.1)
Net assets	3	**211.5**	159.1
Equity			
Share capital	24, 25	**6.6**	6.6
Share premium account	25	**37.6**	37.1
Capital redemption reserve	25	**7.6**	7.6
Translation reserve	25	**(0.1)**	(4.5)
Retained earnings	25	**150.6**	105.6
Equity attributable to equity holders of the parent	25	**202.3**	152.4
Minority interests	25	**9.2**	6.7
Total equity		**211.5**	159.1

These financial statements were approved by the Board of Directors and authorised for issue on 28 February 2008.
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 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Operating profit from continuing operations		107.4	89.3
Operating loss from discontinued operation		(13.3)	(0.2)
		94.1	89.1
Depreciation of property, plant and equipment		17.4	13.4
Amortisation of intangible assets		1.0	2.4
Loss/(profit) on sale of property, plant and equipment		0.4	(0.6)
Other non-cash movements		1.0	0.2
Foreign exchange losses/(gains)		0.2	(0.2)
Operating cash flows before movements in working capital		114.1	104.3
Movement in long-term liabilities and employee benefits		1.9	(1.7)
Increase in inventories		(0.9)	(3.0)
Increase in trade and other receivables		(32.8)	(30.6)
Increase in trade and other payables		34.9	29.3
Cash generated from operations		117.2	98.3
Interest paid		(5.3)	(6.2)
Income tax paid		(32.0)	(30.7)
Net cash inflow from operating activities		79.9	61.4
Cash flows from investing activities			
Interest received		1.3	1.1
Proceeds from sale of property, plant and equipment		1.0	2.0
Acquisition of subsidiaries, net of cash acquired		(34.5)	(26.4)
Acquisition of property, plant and equipment		(48.1)	(29.4)
Acquisition of other non-current assets		(2.8)	(2.6)
Net cash outflow from investing activities		(83.1)	(55.3)
Cash flows from financing activities			
Proceeds from the issue of share capital		0.5	0.8
New borrowings		22.2	6.6
Repayment of borrowings		(0.7)	(3.6)
Payment of finance lease liabilities		(1.9)	(2.1)
Dividends paid		(12.3)	(9.0)
Net cash inflow/(outflow) from financing activities		7.8	(7.3)
Net increase/(decrease) in cash and cash equivalents		4.6	(1.2)
Cash and cash equivalents at beginning of period		20.3	23.3
Effect of exchange rate fluctuations		1.2	(1.8)
Cash and cash equivalents at end of period	19	26.1	20.3

Notes to the Consolidated Financial Statements

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 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 72 to 77.

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.

Except as noted below, these accounting policies have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by subsidiaries.

The Company has adopted IFRS 7 – Financial instruments: Disclosure and IAS 1 amendment – Presentation of Financial statements: Capital Disclosures, which apply to accounting periods commencing on or after 1 January 2007. The principal impact of the adoption of IFRS 7 was to add or amend certain disclosures relating to financial instruments. The adoption of IAS 1 amendment did not have a material impact on the consolidated financial statements.

In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the loss from discontinued operation is shown separately in the income statement net of tax and the comparative figures have been restated accordingly.

The Company did not adopt IFRS 8 – Operating segments or IFRIC 11 – IFRS 2: Group and Treasury share transactions, which were available for adoption in the year but not mandatory.

c) Basis of consolidation
The consolidated financial statements 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.

Intra-Group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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.

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 the lower of fair value or present value of minimum lease payments 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.

The exchange rates used in respect of principal currencies are:

	2007	2006
US dollar: average for period	**2.00**	1.84
US dollar: period end	**2.00**	1.96
Euro: average for period	**1.46**	1.47
Euro: period end	**1.36**	1.49
Australian dollar: average for period	**2.39**	2.45
Australian dollar: period end	**2.28**	2.49

2 Principal accounting policies continued

h) Interest income and expense

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

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.

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.

In accordance with IFRS 3, goodwill recognised prior to 1 January 2004 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.

Other intangible assets

Intangible assets, other than goodwill, include purchased licences, patents, trademarks, backlog and non-compete agreements. 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 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.

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.

2 Principal accounting policies continued

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 initially 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, are initially recognised at fair value and are carried at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

s) *Trade payables*

Trade payables are not interest bearing, are initially recognised at fair value and are carried at amortised cost.

t) *Financial guarantees*

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.

u) *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.

v) *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.

w) *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.

x) *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 financial statements are in connection with construction contracts in progress, claims on construction contracts, the valuation of pension liabilities, fair values of net assets acquired in business combinations and goodwill impairment tests.

The Group's approach to estimates and judgements relating to construction contracts and claims is set out in e) above. The main factors considered when making those estimates and judgments include the likely outcome of negotiations of variations, expectations regarding the recovery of any cost over-runs, the likelihood of claims by or against the Group, including the potential for liquidated damages, and the extent to which any claims against the Group are covered by insurance.

Note 30 sets out the principal assumptions underlying the valuation of the Group's defined benefit liabilities which include the discount rate, expected return on assets, rate of inflation and mortality rates. 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.

Key uncertainties in estimating the fair value of net assets acquired in business combinations include the market value of tangible assets and the identification and measurement of separable intangible assets.

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. Principal areas of uncertainty in respect of valuations are around forecast cash flows, taking into account the strength of local markets, and the discount rate. The discount rate used is based on the Group's weighted average cost of capital and adjusted as necessary to reflect the financing and risk associated with the asset being tested.

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:

	2007 Revenue £m	2007 Operating profit £m	2006 Revenue Restated £m	2006 Operating profit Restated £m
United Kingdom	78.0	3.8	60.7	3.4
North America	473.2	61.6	476.9	64.1
CEMEA[1]	296.8	30.4	255.0	17.9
Australia	107.1	14.7	65.1	7.0
	955.1	110.5	857.7	92.4
Central items and eliminations	–	(3.1)	–	(3.1)
Continuing operations	955.1	107.4	857.7	89.3
Discontinued operation[3] (note 5)	36.8	(13.3)	62.5	(0.2)
	991.9	94.1	920.2	89.1

	2007 Assets £m	2007 Liabilities £m	2007 Capital employed £m	2006 Assets £m	2006 Liabilities £m	2006 Capital employed £m
United Kingdom	51.0	(36.5)	14.5	43.0	(35.5)	7.5
North America	254.7	(91.6)	163.1	208.0	(77.7)	130.3
CEMEA[1]	188.5	(105.7)	82.8	136.6	(79.4)	57.2
Australia	47.3	(23.6)	23.7	33.1	(16.1)	17.0
	541.5	(257.4)	284.1	420.7	(208.7)	212.0
Central items[2]	49.4	(122.0)	(72.6)	40.5	(93.4)	(52.9)
	590.9	(379.4)	211.5	461.2	(302.1)	159.1

	2007 Capital additions £m	2007 Depreciation and amortisation £m	2007 Goodwill £m	2006 Capital additions Restated £m	2006 Depreciation and amortisation Restated £m	2006 Goodwill £m
United Kingdom	9.3	1.6	12.4	6.1	1.1	5.0
North America	31.7	7.1	53.6	14.5	7.1	39.4
CEMEA[1]	21.2	6.5	13.0	12.8	6.1	11.9
Australia	8.4	3.0	–	2.3	1.4	–
Continuing operations	70.6	18.2	79.0	35.7	15.7	56.3
Discontinued operation[3] (note 5)	–	0.2	–	0.2	0.1	–
	70.6	18.4	79.0	35.9	15.8	56.3

1 Continental Europe, Middle East and Asia.
2 Central items includes net debt and tax balances.
3 Discontinued operation was previously reported in the UK segment.

United Kingdom goodwill includes £5.0m (2006: £4.6m) in respect of Phi Group Limited and £7.0m (2006: £nil) in respect of Systems Geotechnique Limited. North America goodwill includes £32.0m (2006: £32.6m) in respect of Suncoast Post-Tension L.P. and £13.4m (2006: £nil) in respect of HJ Foundation Company. CEMEA goodwill includes £6.5m (2006: £6.0m) in respect of Keller-Terra S.L.

4 Acquisitions

	Systems Geotechnique			HJ			Total		
	Carrying amount £m	Fair value adjustment £m	Fair value £m	Carrying amount £m	Fair value adjustment £m	Fair value £m	**Carrying amount £m**	**Fair value adjustment £m**	**Fair value £m**
Net assets acquired									
Non-current assets	1.6	0.5	2.1	5.1	1.1	6.2	**6.7**	**1.6**	**8.3**
Current assets	5.9	–	5.9	6.9	–	6.9	**12.8**	**–**	**12.8**
Current liabilities	(4.3)	–	(4.3)	(2.9)	–	(2.9)	**(7.2)**	**–**	**(7.2)**
Non-current liabilities	–	(0.1)	(0.1)	–	–	–	**–**	**(0.1)**	**(0.1)**
	3.2	0.4	3.6	9.1	1.1	10.2	**12.3**	**1.5**	**13.8**
Goodwill			7.0			13.4			**20.4**
Total consideration			10.6			23.6			**34.2**
Satisfied by:									
Initial cash consideration			9.1			23.6			**32.7**
Deferred consideration			1.5			–			**1.5**
			10.6			23.6			**34.2**

On 12 April 2007 the Group acquired 100% of the share capital of Bobian Limited with subsidiaries including Systems Geotechnique Limited, collectively 'Systems Geotechnique', for an initial consideration of £9.1m including the assumption of debt of £1.7m, and an estimated deferred consideration of £1.5m based on future profits. The goodwill arising on the acquisition of Systems Geotechnique is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the combination. The synergies arise as a result of the strategic fit with the Group's existing UK ground engineering business, allowing the enlarged business to establish a strong market lead in drilling and grouting services in the UK and to extend its range of problem solving techniques. Included in non-current assets is an intangible asset of £0.5m representing the fair value of non-compete clauses and backlog at the date of acquisition. In the period to 31 December 2007 Systems Geotechnique contributed £0.6m to the net profit of the Group.

On 1 October 2007 the Group acquired the business and assets of HJ Foundation Inc. ('HJ') for an initial amount of US$47.3m (£23.6m). Whilst the purchase agreement provides for the payment of deferred consideration if certain performance conditions are met, it is not expected that any deferred consideration will be payable. The goodwill arising on the acquisition of HJ is attributable to the knowledge and expertise of HJ's assembled workforce and the operating synergies that arise from the combination as outlined in the Operating Review on page 13. The fair value of the non-current assets acquired includes US$1.8m (£0.9m) representing the fair value of non-compete clauses and HJ's backlog at the date of acquisition. In the period to 31 December 2007 HJ contributed US$0.1m (£0.1m) to the net profit of the Group.

Had both acquisitions taken place on 1 January 2007 total Group revenue from continuing operations would have been £988.2m and total net profit from continuing operations would have been £75.5m.

On 30 September 2005 the Group acquired the business and assets of G. Donaldson Construction Company Inc. ('Donaldson') for an initial amount of US$10.6m (£5.8m) including the assumption of debt and an estimated deferred consideration of US$2.5m (£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. During 2007 the estimates of the amount of deferred consideration payable were revised giving rise to additional goodwill of £1.6m.

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. During 2007 the estimates of the amount of deferred consideration payable were revised giving rise to additional goodwill of £0.4m.

5 Discontinued operation

The Board announced its decision to withdraw from Makers on 20 August 2007. By 31 December 2007 substantially all of the business had been disposed of. The business was not a discontinued operation or classified as held for sale as at 31 December 2006 and the comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations.

Losses attributable to the discontinued operation were as follows:

	2007 £m	2006 £m
Results of discontinued operation		
Revenue	36.8	62.5
Operating costs	(50.1)	(62.7)
Operating loss	(13.3)	(0.2)
Net finance (costs)/income	(0.2)	0.2
Loss before taxation	(13.5)	–
Taxation	3.7	–
	(9.8)	–
Loss on sale of discontinued operation	(0.7)	–
Taxation on gain on sale of discontinued operation	–	–
Loss for the period	(10.5)	–
Basic earnings per share (pence)	(15.8)	–
Diluted earnings per share (pence)	(15.7)	–
Cash flows from discontinued operation		
Net cash from operating activities	(10.2)	(4.2)
Net cash from investing activities	0.3	0.2
Net cash from financing activities	9.0	1.4
	(0.9)	(2.6)

The loss on sale of discontinued operation arose on disposal of net current assets of £0.9m for a total consideration of £0.2m.

6 Operating costs

	Note	2007 £m	2006 Restated £m
Raw materials and consumables		351.7	303.4
Staff costs	7	221.5	194.9
Other operating charges		256.3	254.4
Amortisation of intangibles		1.0	2.4
Depreciation:			
Owned property, plant and equipment		16.7	12.8
Property, plant and equipment held under finance leases		0.5	0.5
		847.7	768.4
Other operating charges include:			
Net foreign exchange (losses)/gains		(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		0.7	0.6
Tax services		0.2	0.3
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its subsidiaries		0.2	–

7 Employees

The aggregate staff costs of the Group were:

	2007 £m	2006 Restated £m
Wages and salaries	201.8	179.5
Social security costs	24.0	22.5
Other pension costs	4.9	4.3
	230.7	206.3
Continuing operations	221.5	194.9
Discontinued operation	9.2	11.4
	230.7	206.3

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:

	2007 Number	2006 Number
United Kingdom	788	744
North America	2,792	2,665
CEMEA	1,960	1,749
Australia	649	540
	6,189	5,698

United Kingdom includes 217 (2006: 303) employees in respect of the discontinued operation.

8 Finance income

	2007 £m	2006 Restated £m
Bank and other interest receivable	1.2	0.8
Expected return on pension scheme assets	1.3	1.1
	2.5	1.9

9 Finance costs

	2007 £m	2006 Restated £m
Interest payable on bank loans and overdrafts	1.8	1.0
Interest payable on other loans	2.5	3.9
Interest payable on finance leases	0.2	0.1
Pension interest cost	1.8	1.6
Other interest costs	0.4	0.9
	6.7	7.5

10 Taxation

	2007 £m	2006 Restated £m
Current tax expense		
Current year	36.6	29.7
Prior years	0.7	(0.1)
Total current tax	37.3	29.6
Deferred tax expense		
Current year	(1.2)	0.9
Prior years:		
One-off tax credit	–	(3.8)
Other	(0.2)	0.2
Total deferred tax	(1.4)	(2.7)
	35.9	26.9

Notes to the Consolidated Financial Statements continued

10 Taxation continued

UK corporation tax is calculated at 30% (2006: 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:

	2007 %	2006 %
UK corporation tax rate of 30% (2006: 30%)	**30**	30
Tax charged overseas at rates other than 30%	**3**	3
Tax losses carried forward	**(1)**	–
Permanent differences	**2**	3
Adjustment to tax charge in respect of previous periods	**1**	1
Effective tax rate before one-off tax credit	**35**	37
One-off tax credit in respect of previous periods	**–**	(5)
Effective tax rate from continuing operations	**35**	32

The one-off tax credit arose following an intra-Group financial restructuring during 2006, 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 recognised a £3.8m deferred tax asset in respect of these losses, which 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 temporary differences £m	Total £m
At 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 and 1 January 2007	(4.1)	12.4	(2.8)	(7.2)	**(1.7)**
(Credit)/charge to the Income Statement	(1.0)	(0.1)	0.6	(2.4)	**(2.9)**
Charge to equity	–	–	0.6	–	**0.6**
Acquired with new subsidiaries	–	0.1	–	–	**0.1**
Exchange differences	–	0.2	–	(0.1)	**0.1**
At 31 December 2007	(5.1)	12.6	(1.6)	(9.7)	**(3.8)**

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

	2007 £m	2006 £m
Deferred tax liabilities	**5.4**	6.2
Deferred tax assets	**(9.2)**	(7.9)
	(3.8)	(1.7)

At the balance sheet date, the Group has unused tax losses of £0.9m (2006: £4.2m) available for offset against future profits, on which no deferred tax asset has been recognised. Losses may be carried forward indefinitely.

11 Dividends paid

Ordinary dividends on equity shares:

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2007 of 6.0p (2006: 4.2p) per share	**4.0**	2.8
Final dividend for the year ended 31 December 2006 of 11.4p (2005: 8.2p) per share	**7.5**	5.3
	11.5	8.1

The Directors have proposed a final dividend for the year ended 31 December 2007 of £8.0m, representing 12.0p (2006: 11.4p) per share. The proposed dividend is subject to approval by shareholders at the Annual General Meeting on 13 May 2008 and has not been included as a liability in these financial statements.

12 Earnings per share

Basic and diluted earnings per share from continuing operations are calculated as follows:

	2007 Basic £m	2007 Diluted £m	2006 Basic £m	2006 Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**64.5**	**64.5**	55.7	55.7

	Number of shares Million	Number of shares Million	Number of shares Million	Number of shares Million
Weighted average of ordinary shares in issue during the year	**66.0**	**66.0**	65.6	65.6
Add: weighted average of shares under option during the year	**–**	**1.3**	–	1.6
Add: weighted average of own shares held	**–**	**0.1**	–	0.1
Subtract: number of shares assumed issued at fair value during the year	**–**	**(0.5)**	–	(0.8)
Adjusted weighted average of ordinary shares in issue	**66.0**	**66.9**	65.6	66.5

	2007 Pence	2007 Pence	2006 Pence	2006 Pence
Earnings per share from continuing operations	**97.6**	**96.4**	84.8	83.7

Total earnings per share from continuing and discontinued operations of 81.8p (2006: 84.8p) was calculated based on earnings of £54.0m (2006: £55.7m) and the weighted average number of ordinary shares in issue during the year of 66.0 million (2006: 65.6 million).

Total diluted earnings per share from continuing and discontinued operations of 80.7p (2006: 83.7p) was calculated based on earnings of £54.0m (2006: £55.7m) and the adjusted weighted average number of ordinary shares in issue during the year of 66.9 million (2006: 66.5 million).

Earnings per share from discontinued operation of (15.8p) (2006: nil) was calculated based on a loss of £10.5m (2006: £nil) and the weighted average number of ordinary shares in issue during the year of 66.0 million (2006: 65.6 million).

Diluted earnings per share from discontinued operation of (15.7p) (2006: nil) was calculated based on a loss of £10.5m (2006: £nil) and the adjusted weighted average number of ordinary shares in issue during the year of 66.9 million (2006: 66.5 million).

Earnings per share before the one-off tax credit in 2006 of 79.0p was calculated based on earnings of £55.7m less the one-off tax credit of £3.8m and the weighted average number of ordinary shares in issue during the year of 65.6 million.

Diluted earnings per share before the one-off tax credit in 2006 of 78.0p was calculated based on earnings of £55.7m less the one-off tax credit of £3.8m and the adjusted weighted average number of ordinary shares in issue during the year of 66.5 million.

13 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 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 and 1 January 2007	56.3	4.1	**60.4**
Acquired with subsidiaries	–	1.4	**1.4**
Additions	22.4	0.1	**22.5**
Exchange differences	0.3	0.1	**0.4**
At 31 December 2007	79.0	5.7	**84.7**
Accumulated amortisation			
At 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 and 1 January 2007	–	2.9	**2.9**
Amortisation charge for the year	–	1.0	**1.0**
At 31 December 2007	–	3.9	**3.9**
Carrying amount			
At 31 December 2007	79.0	1.8	**80.8**
At 31 December 2006 and 1 January 2007	56.3	1.2	**57.5**
At 1 January 2006	55.5	0.2	**55.7**

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. Goodwill allocated to significant cash generating units is shown in note 3.

14 Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Capital work in progress £m	Total £m
Cost				
At 1 January 2006	25.2	151.6	0.7	**177.5**
Additions	1.3	27.2	1.1	**29.6**
Acquired with subsidiary	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 and 1 January 2007	25.4	179.7	1.3	**206.4**
Additions	2.5	43.0	2.6	**48.1**
Acquired with subsidiaries	–	6.7	–	**6.7**
Disposals	(0.1)	(6.0)	–	**(6.1)**
Reclassification	0.4	0.7	(1.1)	**–**
Exchange differences	1.2	8.7	0.2	**10.1**
At 31 December 2007	29.4	232.8	3.0	**265.2**
Accumulated depreciation				
At 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 and 1 January 2007	3.9	87.9	–	**91.8**
Charge for the year	0.5	16.9	–	**17.4**
Disposals	(0.1)	(4.6)	–	**(4.7)**
Exchange differences	0.3	4.6	–	**4.9**
At 31 December 2007	4.6	104.8	–	**109.4**
Carrying amount				
At 31 December 2007	24.8	128.0	3.0	**155.8**
At 31 December 2006 and 1 January 2007	21.5	91.8	1.3	**114.6**
At 1 January 2006	21.6	68.1	0.7	**90.4**

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

	2007 £m	2006 £m
Plant, machinery and vehicles	**3.8**	2.6

15 Other non-current assets

	2007 £m	2006 £m
Fair value of derivative financial instruments	**8.4**	6.3
Other assets	**5.3**	2.5
	13.7	8.8

16 Investments

The Company's principal operating subsidiary undertakings at 31 December 2007 were as follows:

Subsidiary undertaking	Country of incorporation
Keller Limited	UK
Phi Group Limited	UK
Systems Geotechnique 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
HJ Foundation Company	USA
Keller Grundbau GmbH	Germany
Keller Fondations Spéciales SAS	France
Keller Grundbau Ges.mbH	Austria
Keller-Terra S.L.	Spain
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.

17 Inventories

	2007 £m	2006 £m
Raw materials and consumables	16.3	11.0
Work in progress	0.5	1.1
Finished goods	10.1	13.4
	26.9	25.5

18 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	226.5	197.4
Construction work in progress	23.7	12.2
Other receivables	16.4	7.0
Prepayments	7.0	5.1
	273.6	221.7

Trade receivables are shown net of an allowance for doubtful debts of £22.5m (2006: £16.0m). The ageing of trade receivables that were past due but not impaired was as follows:

	2007 £m	2006 £m
Overdue by less than 30 days	40.8	38.3
Overdue by between 30 and 60 days	15.1	20.2
Overdue by between 60 and 90 days	12.2	8.4
Overdue by more than 90 days	6.7	13.8
	74.8	80.7

	2007 £m	2006 £m
Construction contracts in progress at balance sheet date:		
Aggregate amount of costs incurred and recognised profits (less recognised losses) to date	229.5	194.2
Retentions withheld by customers	41.6	14.5
Advances received	2.3	–

19 Cash and cash equivalents

	2007 £m	2006 £m
Bank balances	30.8	25.1
Short-term deposits	0.1	0.1
Cash and cash equivalents in the balance sheet	30.9	25.2
Bank overdrafts	(4.8)	(4.9)
Cash and cash equivalents in the cash flow statement	26.1	20.3

20 Trade and other payables

	2007 £m	2006 £m
Trade payables	109.7	103.4
Other taxes and social security payable	15.4	10.7
Other payables	84.2	59.5
Accruals	35.5	18.8
	244.8	192.4

21 Employee benefits

	Note	2007 £m	2006 £m
Keller Group Pension Scheme (UK)	30	4.6	6.8
Other retirement benefit schemes	30	9.3	8.9
Other employee benefits		0.7	3.1
		14.6	18.8

22 Other non-current liabilities

	2007 £m	2006 £m
Fair value of derivative financial instruments	2.6	3.0
Other liabilities	14.2	8.5
	16.8	11.5

23 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. The ageing of trade receivables that were past due but not impaired is shown in note 18.

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 2007 there were no material forward exchange contracts outstanding (2006: none).

Interest rate risk

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

Liquidity risk and capital management

The Group's capital structure is kept under constant review, taking account of the need for, availability and cost of various sources of finance. The capital structure of the Group consists of net debt, as disclosed in note 23, and equity attributable to equity holders of the parent as shown in the Consolidated Balance Sheet. The Group maintains a balance between certainty of funding and a flexible, cost effective financing structure with all main borrowings being from committed facilities. The Group's policy continues to be to ensure that its capital structure is appropriate to support this balance and the Group's operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Given the continuing strength of the Group's balance sheet, the Board proposes to buy back up to 5% of the Company's ordinary shares during the remainder of 2008. Such a share buy-back programme will be earnings per share enhancing and the Group will be left with sufficient financial flexibility to successfully pursue its strategy and to invest in opportunities for profitable growth. Any shares bought back will initially be held in treasury.

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. These facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt and interest to profit. The Group has complied with these covenants throughout the period.

At the year end, the Group also had other committed and uncommitted borrowing facilities totalling £48.7m to support local requirements.

Hedging

In October 2004 US$100m was raised through a private placement with US institutions. The proceeds of the issue of US$30m 5.05% notes due 2011 and US$70m 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 2007 was £50.1m (2006: £49.0m).

The US$100m fixed rate private placement liabilities were immediately swapped into floating rates, US$75m by means of US dollar interest rate swaps and US$25m 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 2007 represented a liability of £2.6m (2006: £3.0m) included in other non-current liabilities.

The US$75m 2004 interest rate swaps have been designated as fair value hedges of the Group's exposure to changes in the fair value of US$75m of the US private placement loans arising from changes in US interest rates. The US$ 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 US$25m 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 gain of £1.7m (2006: £3.0m loss), has been taken to the Income Statement along with the equal and opposite movement in fair value of the corresponding hedged items.

US$75m 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 loss of £0.5m (2006: £5.7m gain), 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 US$185m 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 2007 represented an asset of £8.4m (2006: £6.3m) included in other non-current assets. The effective portion of changes in the fair value of the 2006 swaps, a gain of £1.9m (2006: £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.

23 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.

	2007 Effective interest rate %	2007 Due within 1–2 years £m	2007 Due within 2–5 years £m	2007 Due after more than 5 years £m	2007 Total non-current liability £m	2007 Due within 1 year £m	2007 Total £m
Bank overdrafts	7.2	–	–	–	–	(4.8)	(4.8)
Bank loans*	6.2	(0.1)	(25.1)	–	(25.2)	(1.1)	(26.3)
Other loans	6.3	–	(14.7)	(35.1)	(49.8)	–	(49.8)
Obligations under finance leases*	3.9	(1.3)	(1.5)	–	(2.8)	(1.7)	(4.5)
Total loans and borrowings		(1.4)	(41.3)	(35.1)	(77.8)	(7.6)	(85.4)
Bank balances	3.4	–	–	–	–	30.8	30.8
Short-term deposits*	3.3	–	–	–	–	0.1	0.1
Net debt		(1.4)	(41.3)	(35.1)	(77.8)	23.3	(54.5)

	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)

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

The Group had unutilised committed banking facilities of £40.5m at 31 December 2007 (2006: £60.2m). 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 £34.6m at 31 December 2007 (2006: £15.1m). All of these borrowing facilities are unsecured.

Future obligations under finance leases totalled £5.2m (2006: £3.4m), including interest of £0.7m (2006: £0.6m).

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.

23 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:

	2007 Sterling	2007 USD	2007 Euro	2007 AUD	2007 Total
Weighted average fixed debt interest rate	7.0%	–	4.5%	–	n/a
Weighted average fixed debt period (years)	4.0	–	2.0	–	n/a

	2007 £m	2007 £m	2007 £m	2007 £m	2007 £m
Fixed rate financial liabilities	(0.8)	–	(3.7)	–	(4.5)
Floating rate financial liabilities	(0.8)	(49.4)	(23.0)	(7.7)	(80.9)
Financial assets	1.5	6.0	20.3	3.1	30.9
Net debt	(0.1)	(43.4)	(6.4)	(4.6)	(54.5)

	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)	5.0	–	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)

Sensitivity analysis

At 31 December 2007, 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 (2006: £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 £1.0m for the year ended 31 December 2007 (2006: £0.8m). 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.

24 Share capital

	2007 £m	2006 £m
Authorised		
Equity share capital:		
80,000,000 ordinary shares of 10p each (2006: 80,000,000)	8.0	8.0
Allotted, called up and fully paid		
Equity share capital:		
66,304,235 ordinary shares of 10p each (2006: 65,837,074)	6.6	6.6

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

Notes to the Consolidated Financial Statements continued

25 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 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 and 1 January 2007	6.6	37.1	7.6	(4.5)	105.6	152.4	6.7	**159.1**
Total recognised income and expense	–	–	–	4.4	55.4	59.8	3.3	**63.1**
Dividends to shareholders	–	–	–	–	(11.5)	(11.5)	(0.8)	**(12.3)**
Share-based payments	–	–	–	–	1.1	1.1	–	**1.1**
Share capital issued	–	0.5	–	–	–	0.5	–	**0.5**
At 31 December 2007	6.6	37.6	7.6	(0.1)	150.6	202.3	9.2	**211.5**

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 £1.9m (2006: £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.

26 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 £11.6m (2006: £13.6m) for GTCEISU Construcción, S.A., a connected person of Mr López Jiménez, a Director of the Company. An amount of £8.0m (2006: £8.8m) is included in trade and other receivables in respect of amounts outstanding at 31 December 2007.

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 39 to 41.

27 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:

	2007 Land and buildings £m	**2007 Plant, machinery and vehicles £m**	**2007 Total £m**	2006 Land and buildings £m	2006 Plant, machinery and vehicles £m	2006 Total £m
Payable within one year	**5.4**	**5.9**	**11.3**	4.7	5.3	10.0
Payable between one and five years inclusive	**12.3**	**6.5**	**18.8**	10.4	6.0	16.4
Payable in over five years	**6.9**	**0.2**	**7.1**	5.2	–	5.2
	24.6	**12.6**	**37.2**	20.3	11.3	31.6

28 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 2007 the Group had discounted bills of exchange and standby letters of credit outstanding totalling £17.8m (2006: £20.6m).

29 Share-based payments

The Group has two share option plans, 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 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:

	2001 Plans Options	2001 Plans Weighted average exercise price	Performance Share Plan Options
Outstanding at 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 and 1 January 2007	445,661	245.6p	960,250
Granted during 2007	–	–	216,842
Exercised during 2007	(217,161)	243.3p	(284,750)
Outstanding at 31 December 2007	228,500	247.0p	892,342
Exercisable at 1 January 2006	202,500	231.5p	–
Exercisable at 31 December 2006 and 1 January 2007	445,661	245.6p	–
Exercisable at 31 December 2007	228,500	247.0p	21,250

Exercises occurred throughout the year. The average share price during the year was 968p.

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:

	2007 Performance Share Plan	2006 Performance Share Plan
Weighted average share price	**881.0p**	445.0p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**28.10%**	28.50%
Expected life	**3 years**	3 years
Risk free rate	**5.24%**	4.40%
Expected dividend yield	**1.77%**	2.70%

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 £1.1m (2006: £0.8m) related to equity-settled, share-based payment transactions.

30 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 2007 (2006: £nil). The total UK defined contribution pension charge for the year was £0.7m (2006: £0.3m).

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 £2.5m (2006: £1.9m).

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% (2006: 9%). The total Australian pension charge for the year was £1.6m (2006: £1.2m).

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

	The Keller Group Pension Scheme (UK) Year ended 31 December 2007 £m	The Keller Group Pension Scheme (UK) Year ended 31 December 2006 £m	**German and Austrian Schemes Year ended 31 December 2007 £m**	German and Austrian Schemes Year ended 31 December 2006 £m
Present value of the scheme liabilities	**(31.4)**	(32.5)	**(9.3)**	(8.9)
Present value of assets	**26.8**	25.7	**–**	–
Deficit in the scheme	**(4.6)**	(6.8)	**(9.3)**	(8.9)

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

	31 December 2007 %	31 December 2006 %	**31 December 2007 %**	31 December 2006 %
Discount rate	**5.8**	5.2	**5.3**	4.5
Expected return on scheme assets	**6.2**	6.3	**n/a**	n/a
Rate of increase in salaries	**n/a**	n/a	**–**	–
Rate of increase in pensions in payment	**3.4**	3.1	**1.5**	1.5
Rate of increase in pensions in deferment	**3.4**	3.1	**1.5**	1.5
Rate of inflation	**3.4**	3.1	**1.5**	1.5
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 2007 £m	Value as at 31 December 2006 £m	**Value as at 31 December 2007 £m**	Value as at 31 December 2006 £m
Equities	**16.9**	15.7	**n/a**	n/a
Bonds	**9.9**	10.0	**n/a**	n/a
Total present value of assets	**26.8**	25.7	**n/a**	n/a

30 Retirement benefit schemes continued

	The Keller Group Pension Scheme (UK) Year ended 31 December 2007 £m	The Keller Group Pension Scheme (UK) Year ended 31 December 2006 £m	German and Austrian Schemes Year ended 31 December 2007 £m	German and Austrian Schemes Year ended 31 December 2006 £m
Changes in scheme liabilities				
Opening balance	(32.5)	(31.7)	(8.9)	(8.6)
Current service cost	–	(0.1)	(0.3)	(0.2)
Member contributions	–	(0.1)	–	–
Interest cost	(1.7)	(1.5)	(0.3)	(0.3)
Past service cost	–	(0.2)	–	–
Benefits paid	0.8	1.0	0.4	0.4
Exchange differences	–	–	(1.0)	0.2
Actuarial gains/(losses)	2.0	0.1	0.8	(0.4)
Closing balance	(31.4)	(32.5)	(9.3)	(8.9)
Changes in scheme assets				
Opening balance	25.7	19.8	–	–
Expected return on scheme assets	1.5	1.3	–	–
Employer contributions	1.2	5.3	–	–
Member contributions	–	0.1	–	–
Benefits paid	(0.8)	(1.0)	–	–
Actuarial (losses)/gains	(0.8)	0.2	–	–
Closing balance	26.8	25.7	–	–
Actual return on scheme assets	0.8	1.5	–	–
Statement of recognised income and expense (SORIE)				
Actuarial (losses)/gains from assets	(0.8)	0.2	–	–
Actuarial gains/(losses) from liabilities	2.0	0.1	0.8	(0.4)
Net actuarial gains/(losses)	1.2	0.3	0.8	(0.4)
Cumulative actuarial losses	(6.0)	(7.2)	(0.7)	(1.5)
Expense/(income) recognised in the income statement				
Current service cost	–	0.1	0.3	0.2
Past service cost	–	0.2	–	–
Operating costs	–	0.3	0.3	0.2
Interest cost	1.7	1.5	0.3	0.3
Expected return on assets	(1.5)	(1.3)	–	–
Expense recognised in the income statement	0.2	0.5	0.6	0.5
Movements in the balance sheet liability				
Net liability at start of year	6.8	11.9	8.9	8.6
Expense recognised in the income statement	0.2	0.5	0.6	0.5
Contributions	(1.2)	(5.3)	–	–
Benefits paid	–	–	(0.4)	(0.4)
Exchange differences	–	–	1.0	(0.2)
Actuarial (gains)/losses recognised in SORIE	(1.2)	(0.3)	(0.8)	0.4
Net liability at end of year	4.6	6.8	9.3	8.9

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 2008 are £1.2m.

30 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:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligations	**(40.7)**	(41.4)	(40.3)	(33.4)	(27.1)
Fair value of scheme assets	**26.8**	25.7	19.8	16.8	17.4
Deficit in the schemes	**(13.9)**	(15.7)	(20.5)	(16.6)	(9.7)
Experience adjustments on scheme liabilities					
Amount	**2.8**	(0.3)	(7.7)	(3.1)	0.2
Percentage of scheme liabilities	**6.9%**	0.7%	19.0%	9.4%	0.6%
Experience adjustments on scheme assets					
Amount	**(0.8)**	0.2	1.8	0.5	1.0
Percentage of scheme assets	**3.0%**	0.8%	9.0%	2.7%	5.6%

Keller Group plc
Company Financial Contents

Company Balance Sheet
as at 31 December 2007

	Note	2007 £m	2006 £m
Fixed assets			
Tangible fixed assets	4	**0.2**	0.3
Investments	5	**129.1**	69.0
Deferred tax assets	6	**3.1**	3.3
		132.4	72.6
Current assets			
Debtors*	7	**163.9**	192.8
Cash at bank and in hand		**1.4**	0.4
Creditors: amounts falling due within one year	8	**(10.6)**	(9.0)
Net current assets*		**154.7**	184.2
Total assets less current liabilities		**287.1**	256.8
Creditors: amounts falling due after more than one year	9	**(81.8)**	(78.1)
Retirement benefits	14	**(0.5)**	(0.8)
Net assets		**204.8**	177.9
Capital and reserves			
Called up share capital	10	**6.6**	6.6
Share premium account	12	**37.6**	37.1
Capital redemption reserve	12	**7.6**	7.6
Profit and loss account	12	**153.0**	126.6
Shareholders' funds	11	**204.8**	177.9

* Debtors and net current assets include debtors recoverable after more than one year of £161.0m (2006: £191.0m).

These financial statements were approved by the Board of Directors and authorised for issue on 28 February 2008.
They were signed on its behalf by:

J M West Chairman
J W G Hind Finance Director

Notes to the Company Financial Statements

1 Significant accounting policies

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

The Company has taken the exception granted under SI 2005/2417 not to disclose non-audit fees paid to its auditors.

The Company has adopted FRS 29 – Financial instruments: Disclosures and UITF 41 – Scope of FRS 20 in the year. These did not have a material impact on the financial statements. Except for this, the following accounting policies have been applied consistently.

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 Employees

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.

3 Dividends paid

Ordinary dividends paid on equity shares are disclosed in note 11 to the consolidated financial statements.

4 Tangible fixed assets

	Leasehold improvements £m	Total £m
Cost		
At 1 January 2007 and 31 December 2007	0.3	**0.3**
Accumulated depreciation		
At 1 January 2007	–	**–**
Charge for the year	(0.1)	**(0.1)**
At 31 December 2007	(0.1)	**(0.1)**
Carrying amount		
At 31 December 2007	0.2	**0.2**
At 1 January 2007	0.3	**0.3**

5 Investments

The Company's principal investments are disclosed in note 16 to the consolidated financial statements.

During the year the Company made an investment of £10.6m in Bobian Limited. Further details of this acquisition are given in note 4 to the consolidated financial statements.

The Company also made further investments of £0.4m in Phi Group Limited and £65.1m in Keller Holdings Limited.

The Company's investment in Makers UK Limited of £16.0m was fully impaired in the year.

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 2007	3.0	0.3	**3.3**
Credit to the profit and loss account	(0.3)	0.1	**(0.2)**
At 31 December 2007	2.7	0.4	**3.1**

7 Debtors

	2007 £m	2006 £m
Amounts owed by subsidiary undertakings	**155.3**	186.5
Other debtors	**8.6**	6.3
	163.9	192.8
Included in the above are amounts falling due after more than one year in respect of:		
Amounts owed by subsidiary undertakings	**152.6**	184.7
Other debtors	**8.4**	6.3
	161.0	191.0

8 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Amounts owed to subsidiary undertakings	**2.5**	5.9
Other creditors	**7.5**	2.5
Accruals	**0.6**	0.6
	10.6	9.0

9 Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Bank loans	**6.2**	5.5
Other loans	**50.1**	49.0
Other creditors	**2.6**	3.0
Amounts owed to subsidiary undertakings	**22.9**	20.6
	81.8	78.1
Bank and other loans are repayable as follows:		
Between two and five years	**21.2**	20.5
In five years or more	**35.1**	34.0
	56.3	54.5

The Company had an unutilised committed banking facility of £38.8m at 31 December 2007 (2006: £55.8m); the facility expires on 20 June 2011.

10 Share capital

Details of the Company's share capital are given in note 24 to the consolidated financial statements.

11 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Profit for the financial year	**36.7**	114.4
Actuarial gain on defined benefit pension scheme (net of deferred tax)	**0.1**	–
Dividends	**(11.5)**	(8.1)
Issue of new shares	**0.5**	0.7
Share-based payments	**1.1**	0.8
Net movements in shareholders' funds	**26.9**	107.8
Shareholders' funds at 1 January	**177.9**	70.1
Shareholders' funds at 31 December	**204.8**	177.9

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 2007	37.1	7.6	126.6	**171.3**
Profit for the financial year	–	–	36.7	**36.7**
Actuarial gain on defined benefit pension scheme (net of deferred tax)	–	–	0.1	**0.1**
Dividends	–	–	(11.5)	**(11.5)**
Issue of new shares	0.5	–	–	**0.5**
Share-based payments	–	–	1.1	**1.1**
At 31 December 2007	37.6	7.6	153.0	**198.2**

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 29 to the consolidated financial statements.

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 30 to the consolidated financial statements. 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 30 to the consolidated financial statements.

Notes to the Company Financial Statements continued

14 Retirement benefit schemes continued

There were no contributions outstanding in respect of the defined contribution schemes at 31 December 2007 (2006: £nil).

Details of the Company's share of the Keller Group Pension Scheme are as follows:

	2007 £m	2006 £m
Present value of the scheme liabilities	(5.0)	(5.2)
Present value of assets	4.3	4.1
Deficit in the scheme	(0.7)	(1.1)
Related deferred tax asset at 28% (2006: 30%)	0.2	0.3
Net pension liability	(0.5)	(0.8)

The assets of the scheme were as follows:

	2007 £m	2006 £m
Equities	2.7	2.5
Bonds	1.6	1.6
Total present value of assets	4.3	4.1

	2007 £m	2006 £m
Changes in scheme liabilities		
Opening balance	(5.2)	(5.1)
Interest cost	(0.2)	(0.3)
Benefits paid	0.1	0.2
Actuarial gains	0.3	–
Closing balance	(5.0)	(5.2)
Changes in scheme assets		
Opening balance	4.1	3.2
Expected return on scheme assets	0.2	0.2
Employer contributions	0.2	0.9
Benefits paid	(0.1)	(0.2)
Actuarial (losses)	(0.1)	–
Closing balance	4.3	4.1
Actual return on scheme assets	0.1	0.2
Statement of total recognised gains and losses (STRGL)		
Actuarial (losses) from assets	(0.1)	–
Actuarial gains from liabilities	0.3	–
Net actuarial gains	0.2	–
Cumulative actuarial losses	(0.2)	(0.4)
Expense recognised in the profit and loss account		
Interest cost	0.2	0.3
Expected return on assets	(0.2)	(0.2)
Expense recognised in the profit and loss account	–	0.1
Movements in the balance sheet liability		
Net liability at start of year	1.1	1.9
Expense recognised in the profit and loss account	–	0.1
Contributions	(0.2)	(0.9)
Actuarial gains recognised in STRGL	(0.2)	–
Net liability at end of year	0.7	1.1

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 2008 are £0.2m.

14 Retirement benefit schemes continued

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

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligations	**(5.0)**	(5.2)	(5.1)	(6.9)	(4.3)
Fair value of scheme assets	**4.3**	4.1	3.2	4.6	2.8
Deficit in the scheme	**(0.7)**	(1.1)	(1.9)	(2.3)	(1.5)
Experience adjustments on scheme liabilities					
Amount	**0.3**	–	1.7	(0.1)	0.2
Percentage of scheme liabilities	**6.0%**	0%	33%	0.9%	4.1%
Experience adjustments on scheme assets					
Amount	**(0.1)**	–	(1.7)	0.1	0.3
Percentage of scheme assets	**2.0%**	0%	53.1%	2.7%	6.4%

Financial Record

	UK GAAP 2003 £m	UK GAAP 2004 £m	IFRS 2004 £m	IFRS 2005 £m	IFRS 2006 £m	**IFRS 2007 £m**
Consolidated Income Statement						
Continuing operations						
Revenue	505.4	526.2	526.2	685.2	857.7	**955.1**
Operating profit before exceptional items and amortisation of intangible assets	33.7	33.1	33.4	55.4	91.7	**108.4**
Amortisation of intangible assets	(3.2)	(2.9)	(0.1)	(0.1)	(2.4)	**(1.0)**
Exceptional items	(1.6)	–	–	–	–	**–**
Operating profit	28.9	30.2	33.3	55.3	89.3	**107.4**
Finance income	0.2	0.2	1.3	1.2	1.9	**2.5**
Finance costs	(4.2)	(4.2)	(5.3)	(5.8)	(7.5)	**(6.7)**
Profit on ordinary activities before taxation	24.9	26.2	29.3	50.7	83.7	**103.2**
Taxation – underlying	(11.3)	(11.3)	(12.0)	(20.4)	(30.7)	**(35.9)**
Taxation – one-off tax credit	–	–	–	–	3.8	**–**
Profit for the period from continuing operations	13.6	14.9	17.3	30.3	56.8	**67.3**
Discontinued operation						
(Loss)/profit from discontinued operation net of taxation	(9.5)	0.6	0.6	(1.3)	–	**(10.5)**
Profit for the period	4.1	15.5	17.9	29.0	56.8	**56.8**
Attributable to:						
Equity holders of the parent	2.3	13.4	15.8	27.3	55.7	**54.0**
Equity minority interests	1.8	2.1	2.1	1.7	1.1	**2.8**
	4.1	15.5	17.9	29.0	56.8	**56.8**
Consolidated Balance Sheet						
Property, plant and equipment	82.2	80.9	80.9	90.4	114.6	**155.8**
Intangible and other non-current assets	57.0	57.9	51.8	55.7	66.3	**94.5**
Other net operating assets	40.1	46.8	46.3	49.7	52.9	**50.2**
Net debt	(60.7)	(60.0)	(58.7)	(40.9)	(38.6)	**(54.5)**
Other net liabilities	(21.0)	(24.2)	(29.3)	(37.7)	(36.1)	**(34.5)**
Net assets	97.6	101.4	91.0	117.2	159.1	**211.5**
Minority interests	(5.6)	(5.6)	(5.6)	(6.1)	(6.7)	**(9.2)**
Equity attributable to equity holders of the parent	92.0	95.8	85.4	111.1	152.4	**202.3**

Notice of Annual General Meeting

Notice is hereby given that the 2008 Annual General Meeting of Keller Group plc (incorporated and registered in England and Wales with company number 02442580) will be held at the offices of Smithfield Consultants Limited, 10 Aldersgate Street, London EC1A 4HJ on 13 May 2008 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 2007 together with the Independent Auditors' Report thereon.

(2) To declare a final dividend of 12.0p per ordinary share, such dividend to be paid on 30 May 2008 to members on the register at the close of business on 2 May 2008.

(3) To approve the Directors' Remuneration Report for the year ended 31 December 2007.

(4) To re-elect as a Director Mr J R Atkinson who retires by rotation.

(5) To re-elect as a Director Mr E G F Brown who retires by rotation.

(6) To re-elect as a Director Mr R T Scholes 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 ten 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 to 12 will be proposed as ordinary resolutions and resolutions numbered 13 to 15 will be proposed as special resolutions:

(9) THAT the Company may send or supply any documents or information to members by making them available on a website for the purposes of paragraph 10(2) of schedule 5 to the Companies Act 2006 and otherwise.

(10) THAT the Company may use electronic means (within the meaning of the Disclosure Rules and Transparency Rules sourcebook published by the Financial Services Authority) to convey information to members.

(11) THAT the payment by the Company of Directors' fees in the sum of £318,000 for 2007 in excess of the limit contained in article 92 of the Company's current articles of association be and is hereby ratified.

(12) 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 £2,210,141 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.

(13) THAT, subject to the passing of resolution 12 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 12 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 £331,521

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.

(14) 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 6,630,423 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.

(15) THAT the draft regulations produced to the meeting be and are hereby adopted as the articles of association of the Company to the exclusion of and in substitution for the existing articles of association of the Company.

By order of the Board

Jackie Holman
Secretary
28 February 2008

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

Notes

1. Resolutions 9 and 10 – Consent to website and electronic communications

As a result of the changes made to the Act by the implementation of the Companies Act 2006 ('**2006 Act**'), it is now considered best practice to obtain shareholder approval to website communications and, notwithstanding the fact that the Company already has this power in its existing articles of association, the Company is seeking this approval by means of resolution 9. For officially listed companies, the Disclosure and Transparency Rules of the Financial Services Authority also require a shareholders' resolution to be passed approving communications by all electronic means (which includes email, fax and website communications) where a shareholder gives his express consent to such communications. Resolution 10, if passed, will partially satisfy this requirement. By proposing these resolutions at the 2008 Annual General Meeting, at this stage the Company is looking to put in place a framework to facilitate the electronic communications regime. The Company will contact shareholders about these proposals in more detail in the event that it ultimately decides to implement electronic communications with shareholders in full.

2. Resolution 11 – Ratification of 2007 Directors' fees

The articles fix the total aggregate sum which may be paid to the directors as fees for their services as directors (not including any salary which may be payable in respect of their executive duties), without seeking shareholder consent. The current limit of £250,000 was set in May 2001 and increases annually from that date, in line with the retail prices index, giving a limit of £295,924 at May 2007. This limit was exceeded in 2007, when fees paid to the Directors amounted to £318,000. The Board considers that the current limit is no longer appropriate and is seeking a higher limit going forward, as noted in 5c below. Shareholders are asked to ratify the fees paid to the Directors in 2007.

3. Resolutions 12 and 13 – 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 12 and 13 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 £2,210,141 which is equal to approximately 33.3% of the issued ordinary share capital at 28 February 2008. 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 £331,521 representing about 5% of the issued ordinary share capital at 28 February 2008 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.

The Board has no current plans to allot ordinary shares and 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.

The authority sought by resolutions 12 and 13 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.

4. Resolution 14 – 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 Board has announced that it intends to use its authority to buy back up to 5% of its share capital during the remainder of 2008.

5. Resolution 15 – Adoption of new articles of association

As a result of the changes to the laws relating to companies brought into force in the 2006 Act, it has been necessary to make certain consequential changes to the Company's articles of association. In addition a number of other changes are proposed to bring the Company's articles in line with market practice. The principal changes to the articles of association, if adopted, are as follows:

5a the provisions relating to notice and frequency of general meetings have been amended in accordance with the provisions of the 2006 Act so that: (i) the Company will hold an Annual General Meeting within the six-month period following its accounting reference date, rather than once every 15 months as currently required; and (ii) for all general meetings of the Company (other than Annual General Meetings) the Company need only give 14 clear days' notice. The Act currently requires that 21 clear days' notice is given of any meeting at which a special resolution is proposed;

5b shareholders will be permitted to appoint multiple proxies to attend, speak and vote at general meetings of the Company and such proxies will also be allowed to vote on a resolution put to a meeting on a show of hands as well as on a poll. In addition, the current articles of association require that in order for the appointment of a proxy to be valid, proxy forms must be received by the Company 48 hours before the meeting. The 2006 Act permits the Company to disregard days which are not working days for the purposes of calculating this time period and the new articles of association have been amended to give the Board discretion in regard to this time period;

5c the current articles fix the total aggregate sum which may be paid to the directors as fees for their services as directors (not including any salary which may be payable in respect of their executive duties) at £250,000. This sum is increased annually from May 2001 in line with the retail prices index. The Board is of the view that this limit is no longer appropriate, given the current size of the Company and having regard to the limits put in place by other listed companies of our size. It is therefore proposing this limit is increased to £500,000 and that, in line with most other companies, it is limited to fees paid to non-executive directors;

5d the articles have been amended to include a new article which requires the directors to retire by rotation every three years;

5e the 2006 Act removes the requirement that directors who have attained the age of 70 vacate office and accordingly the Company has removed this provision in its articles;

5f the 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The new articles of association give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed; and

5g the 2006 Act also permits the Company to provide an indemnity in favour of directors and officers of associated companies including any corporate pension scheme trustees and the Company has updated the new articles to provide for this.

As the provisions of the 2006 Act are gradually phased in it is the Company's intention, subject to shareholder approval, to continue to update its articles of association in accordance with the 2006 Act.

6. Record Date

Only those shareholders registered in the register of members of the Company as at 6.00pm on 11 May 2008 or, in the event that the meeting is adjourned, in the register of members as at 6.00pm on the date that is two days before any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00pm on 11 May 2008 or, in the event that the meeting is adjourned, after 6.00pm on the date that is two days before any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

7. Proxies

7a A shareholder is entitled to appoint one or more persons as proxies to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting if he so wishes. To appoint more than one proxy shareholders will need to complete a separate proxy form for each proxy. Copies of additional proxy forms can be obtained from the Company's registrars, Equiniti Limited, by telephoning 0871 384 2030 or shareholders may photocopy the form of proxy indicating on each copy the name of the proxy to be appointed and the number of shares in respect of which the proxy is appointed. The total votes cast and in respect whereof abstention is recorded by a shareholder or his duly appointed proxies may not, in aggregate, exceed the total number of the votes exercisable by that shareholder in respect of ordinary shares in the Company of which he is the holder. All forms of proxy should be returned together in the same envelope. Shareholders can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

7b A form of proxy is enclosed. To be valid, it must be completed, signed and sent to the offices of the Company's registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL so as to arrive no later than 11.00am on 11 May 2008 (or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

7c CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a '**CREST Proxy Instruction**') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent ID 7RA01 by no later than 11.00am on 11 May 2008. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

8. 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, current articles of association and proposed new 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.

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J F Holman

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Location photography by Greg Bartley
Board photography by John Cumming

Designed and produced by Rare Corporate Design · www.rarecorporate.co.uk

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