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.