



- 1 Chairman's statement**
- 4 Consolidated income statement**
Consolidated statement of
recognised income and expense
- 5 Consolidated balance sheet**
- 6 Consolidated cash flow statement**
- 7 Notes to the interim report**

Chairman's statement

Dr Michael West

Group sales were up 34% and the first-half operating margin rose to its highest-ever level of 7.9%.

Financial overview

I am pleased to report an outstanding set of results for the six months ended 30 June 2006. An excellent performance from our North American businesses has been a recurring theme in our recent results announcements. Now, in addition, we can report very strong organic growth and a significant increase in margins in all our other geographic regions.

Group sales for the period were up 34% at £450.0m (2005: £335.0m). Operating profit was £35.7m (2005: £17.6m) and the first-half operating margin rose to its highest-ever level of 7.9% (2005: 5.2%).

As stated in our AGM trading update in June, the first-half results were enhanced by the receipt of several large claim settlements relating to jobs undertaken in prior years, totalling about £5m, as well as benign winter weather conditions in North America. However, even after adjusting for these factors, the Group operating margin was a record for the first half.

Profit before tax more than doubled to £33.4m (2005: £15.6m) and earnings per share were up 135% at 30.3p (2005: 12.9p).

Cash generated from operations increased to £28.8m, compared to last year's £13.8m, underlining the quality of the earnings. The period end net debt was £47.6m, which compares to £65.3m at the end of June 2005. This year-on-year decrease is stated after expenditure of about £12m on acquisitions and a £4m one-off contribution into the UK pension scheme. Capital expenditure in the first half was £12.9m (2005: £4.5m), higher than historic levels, to support the expanding workload. A further £9.6m has been spent since the half year end on the acquisition of Piling Contractors, announced on 16 August 2006.

Dividend

The board has declared an interim dividend of 4.2p per share (2005: 3.8p), representing an increase of 11%. This will be paid on 1 November 2006 to shareholders on the register at 6 October 2006.

Operational overview North America

Our North American operations had an excellent first half and continued to gain market share, with all four businesses beating their previous record performances. Sales of £241.1m (2005: £177.7m) were up 36%, whilst operating profit of £27.8m (2005: £13.6m) was more than twice the previous year.

The first-half result from Suncoast was extremely strong, with sales in both slab-on-grade products for single-family homes and its commercial high-rise products significantly above the same period last year. On the West Coast, the business continued to show good growth, as the customer base in that region expands, whilst we further increased our market share in Texas, where new housing starts are bucking the national trend.

Whilst we are now beginning to feel the effect of the residential market cooling down, we believe the impact on Suncoast will be mitigated by the opportunities for product substitution in favour of post-tension foundations as an alternative to traditional foundation methods.

All five of Hayward Baker's regions performed very well. The northern region benefited from a first-time contribution from Donaldson, the New England business acquired in September 2005, which surpassed expectations.

Chairman's statement continued

Among the many projects which Hayward Baker undertook in the first half were several dry soil mixing contracts which formed part of the New Orleans levee and canal repair programme. One of these involved working from a barge on the 17th Street Canal, where we used a combination of dry soil mixing and jet grouting to depths of 70 feet below the surface to strengthen the soft soils. This will enable the construction of a new floodgate, to close off storm surge from Lake Pontchartrain to the north of New Orleans, while allowing flood waters to be pumped back out of the city.

At Case, the first half saw good progress on several large and technically demanding contracts. The foundations for the new Goldman Sachs headquarters building in Lower Manhattan are now virtually complete, on time and to budget, whilst the second phase of a two-year, \$20m (£11m) project to install four water intake shafts and a slurry wall for the Elm Road Generating Station in Wisconsin is progressing well.

Our other US foundation business, McKinney, whose small to mid-diameter caissons complement the larger caissons offered by Case, also had an excellent first half. The Murano Tower condominium project in Philadelphia, which McKinney is performing in joint venture with Case, is nearing completion and is a good example of the synergies that have developed between these two businesses.

Looking ahead to the rest of the year, although the residential sector as a whole is slowing down, the commercial and public infrastructure sectors continue to grow and, with a good order book, we expect another strong performance from North America in the second half.

Continental Europe & Overseas

Our Continental Europe & Overseas business reported much improved results from most of its territories. Sales of £125.8m (2005: £93.8m) were 34% ahead of the previous year, whilst operating profit of £7.0m was 52% ahead (2005: £4.6m).

In Germany, we are experiencing a gradual strengthening of the market with more public infrastructure and commercial projects coming on stream. These improved market conditions, together with the restructuring and process improvements introduced in 2005, resulted in a significantly improved performance.

In France, we benefited from a buoyant domestic market and from increased demand for low-rise commercial structures, such as warehousing and logistics centres, for which Keller's vibro techniques are well suited. In addition, our French operation saw good demand in some of its export markets, particularly Algeria.

The first half of the year saw further strong sales growth in Spain, albeit with some weakening of Keller-Terra's excellent margins. Amongst the many projects successfully completed in the first half was the installation of stone columns at Campa de los Ingleses, as part of the riverside restoration and redevelopment in Bilbao's former heavy industry zone.

Sales in Eastern Europe were up around 50%, albeit from a relatively small base, with another very good contribution from Poland, our largest operation in this region.

Within our Overseas business, Keller benefited from continuing high levels of investment in the Middle East, with our operations in Saudi Arabia, Bahrain and the UAE all working at full capacity for most of the period. Our work in Dubai took us back to the man-made island of Palm Jumeirah, where we are now preparing the foundations for several large hotel developments.

Chairman's statement continued

The Group's business in the Far East had a good first half, during which ground improvement works were completed on Jurong Island, Singapore for the Universal Terminal, which will become one of the largest oil storage facilities in Asia.

UK

Within Keller Ground Engineering, the foundation support division had a buoyant first half. Major jobs undertaken in the period include the foundations for a 52,000m² supermarket distribution centre at Dartford, using a combination of piling, dynamic compaction and vibro techniques. The geotechnical division had a quieter first half, but has recently started to see an uplift in its activity levels.

Phi, the retaining wall specialist acquired in April 2006 for an initial consideration of £5.0m, traded very well in its first three months under Keller ownership. Keller's existing earth retention activities have already been integrated with Phi and the enlarged business is now able to take full advantage of the opportunities in this growing sector.

Makers returned an improved result compared with the second half of last year, partly reflecting a reduction in its cost base which was achieved in spite of increased volumes. The social housing order book remains good. As part of the ongoing rationalisation of this business, the Martech concrete testing and inspection division was sold to management for a nominal sum in April 2006.

Australia

Our Australian business had an excellent first half, with sales up by more than 30% and a doubling of its operating margin. This was achieved on a balanced spread of contracts, in terms of size and geography, and against the backdrop of a very strong market.

In its third year since start-up, the ground engineering business is now trading profitably and offering a variety of products to the marketplace. This has been possible due to a good deal of support from other areas within the Keller Group and illustrates how we are able to transfer our skills and technologies across regions.

Since the period end, we have acquired Piling Contractors, Australia's second largest specialist foundations contractor, for an initial amount of A\$24m (£9.6m) net of acquired cash and an additional earn-out of up to A\$3m (£1.2m) based on future profits. Piling Contractors, which had annual sales of around A\$50m (£20m) in the year ended 30 June 2006, has strong links with the civil engineering, infrastructure and mining sectors, in which Keller was under-represented and this acquisition consolidates our position as market leader in Australia.

Outlook

We have started the second half with excellent trading and continue to have an order book representing around six months' budgeted sales. These factors lead the board to believe that the second-half result should be around last year's exceptional second half. As a result, the board now expects that the Group's results for the year as a whole will exceed current market expectations.

Dr Michael West
Chairman
21 August 2006

Consolidated income statement for the half year ended 30 June 2006

	Note	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
Revenue	3	450,007	335,037	731,039
Operating costs		(414,345)	(317,481)	(677,960)
Operating profit	3	35,662	17,556	53,079
Finance income		900	629	1,544
Finance costs		(3,210)	(2,571)	(5,775)
Profit before taxation		33,352	15,614	48,848
Taxation	4	(13,052)	(6,245)	(19,888)
Profit for the period		20,300	9,369	28,960
Attributable to:				
Equity holders of the parent		19,859	8,402	27,286
Minority interests		441	967	1,674
		20,300	9,369	28,960
Basic earnings per share	6	30.3p	12.9p	41.8p
Diluted earnings per share	6	30.0p	12.8p	41.6p

Consolidated statement of recognised income and expense for the half year ended 30 June 2006

	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
Exchange differences on translation of foreign operations	(6,011)	3,501	8,642
Actuarial gains/(losses) on defined benefit pension schemes	764	1,224	(5,894)
Tax on items taken directly to equity	(186)	(367)	1,777
Net (expense)/income recognised directly in equity	(5,433)	4,358	4,525
Profit for the period	20,300	9,369	28,960
Total recognised income and expense for the period	14,867	13,727	33,485
Attributable to:			
Equity holders of the parent	14,454	12,760	32,091
Minority interests	413	967	1,394
	14,867	13,727	33,485

Consolidated balance sheet as at 30 June 2006

	Note	As at 30 June 2006 £000	As at 30 June 2005 £000	As at 31 December 2005 £000
Assets				
Non-current assets				
Intangible assets		58,904	53,512	55,693
Property, plant and equipment		93,464	79,695	90,375
Deferred tax assets		7,722	2,779	5,706
		160,090	135,986	151,774
Current assets				
Inventories		25,723	23,675	24,437
Trade and other receivables		235,998	182,264	194,574
Cash and cash equivalents	8	24,479	20,463	25,910
		286,200	226,402	244,921
Total assets		446,290	362,388	396,695
Liabilities				
Current liabilities				
Loans and borrowings		(10,183)	(17,030)	(7,183)
Current tax liabilities		(10,125)	(8,058)	(11,046)
Trade and other payables		(204,286)	(144,284)	(168,499)
		(224,594)	(169,372)	(186,728)
Non-current liabilities				
Loans and borrowings		(61,896)	(68,753)	(59,578)
Employee benefits		(15,462)	(15,628)	(21,158)
Deferred tax liabilities		(4,897)	(6,204)	(5,524)
Other liabilities		(12,800)	(3,677)	(6,520)
		(95,055)	(94,262)	(92,780)
Total liabilities		(319,649)	(263,634)	(279,508)
Net assets		126,641	98,754	117,187
Equity				
Share capital		6,573	6,537	6,552
Share premium account		36,861	36,043	36,370
Capital redemption reserve		7,629	7,629	7,629
Translation reserve		(2,724)	(2,165)	3,259
Retained earnings		72,585	45,420	57,248
Equity attributable to equity holders of the parent	7	120,924	93,464	111,058
Minority interests		5,717	5,290	6,129
Total equity		126,641	98,754	117,187

Consolidated cash flow statement for the half year ended 30 June 2006

Note	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
Cash flows from operating activities			
Operating profit	35,662	17,556	53,079
Depreciation of property, plant and equipment	6,468	5,730	11,775
Amortisation of intangible assets	10	53	83
Gain on sale of property, plant and equipment	(261)	(98)	(120)
Other non-cash movements	104	94	539
Foreign exchange losses/(gains)	48	(146)	144
Operating cash flows before changes in working capital and provisions	42,031	23,189	65,500
(Decrease)/increase in provisions and employee benefits	(4,126)	121	(2,202)
(Increase)/decrease in inventories	(1,888)	1,343	1,692
Increase in trade and other receivables	(45,992)	(22,027)	(32,416)
Increase in trade and other payables	38,801	11,202	40,874
Cash generated from operations	28,826	13,828	73,448
Interest paid	(2,465)	(1,834)	(5,058)
Income tax paid	(15,948)	(5,914)	(18,769)
Net cash inflow from operating activities	10,413	6,080	49,621
Cash flows from investing activities			
Interest received	284	79	1,239
Proceeds from sale of property, plant and equipment	1,021	721	1,907
Acquisition of subsidiaries, net of cash acquired	(5,942)	(1,933)	(7,807)
Acquisition of property, plant and equipment	(12,909)	(4,465)	(15,750)
Net cash outflow from investing activities	(17,546)	(5,598)	(20,411)
Cash flows from financing activities			
Proceeds from the issue of share capital	512	17	359
New borrowings	9,477	4,573	1,045
Repayment of borrowings	-	(632)	(10,998)
Payment of finance lease liabilities	(84)	(121)	(138)
Dividends paid	(6,204)	(5,680)	(8,133)
Net cash inflow/(outflow) from financing activities	3,701	(1,843)	(17,865)
Net (decrease)/increase in cash and cash equivalents	(3,432)	(1,361)	11,345
Cash and cash equivalents at beginning of period	23,307	11,109	11,109
Effect of exchange rate fluctuations	(894)	182	853
Cash and cash equivalents at end of period	8	18,981	9,930
	23,307	11,109	11,109

Notes to the interim report

1. Basis of preparation

This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2005, with the exception that the Company has adopted the amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts, which apply to periods commencing on or after 1 January 2006.

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

The figures for the year to 31 December 2005 have been extracted from the Group's statutory accounts for that financial year which received an unqualified auditors' report and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

2. Exchange rates

The exchange rates used in respect of principal currencies are:

		Half year to 30 June 2006	Half year to 30 June 2005	Year to 31 December 2005
US dollar:	average for period	1.79	1.87	1.82
	period end	1.82	1.80	1.72
Euro:	average for period	1.46	1.46	1.46
	period end	1.45	1.50	1.45
Australian dollar:	average for period	2.41	2.43	2.39
	period end	2.49	2.37	2.36

3. Segmental analysis

	Revenue			Operating profit		
	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
United Kingdom	60,017	46,150	89,221	863	394	(332)
North America	241,119	177,663	399,943	27,800	13,581	42,125
Continental Europe & Overseas	125,788	93,833	204,736	7,007	4,592	12,742
Australia	23,083	17,391	37,139	2,240	709	1,764
	450,007	335,037	731,039	37,910	19,276	56,299
Central items and eliminations	–	–	–	(2,248)	(1,720)	(3,220)
	450,007	335,037	731,039	35,662	17,556	53,079

4. Taxation

Taxation based on the profit before tax is:

	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
UK corporation tax at 30% (2005: 30%)	–	–	–
Overseas tax	13,052	6,245	19,888
	13,052	6,245	19,888

Notes to the interim report continued

5. Dividends paid

Ordinary dividends on equity shares:

	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2005 of 8.2p (2004: 7.3p) per share	5,379	4,771	4,771
Interim dividend for the year ended 31 December 2005 of 3.8p per share	–	–	2,486
	5,379	4,771	7,257

In addition to the above, an interim ordinary dividend of 4.2p per share (2005: 3.8p) will be paid on 1 November 2006 to shareholders on the register at 6 October 2006. This proposed dividend has not been included as a liability in these interim statements and will be accounted for in the period in which it is paid.

6. Earnings per share

Earnings per share is calculated as follows:

	2006 Basic £000	2006 Diluted £000	2005 Basic £000	2005 Diluted £000
Profit attributable to equity holders of the parent	19,859	19,859	8,402	8,402
	No. of shares 000s	No. of shares 000s	No. of shares 000s	No. of shares 000s
Weighted average of ordinary shares in issue	65,505	65,505	65,294	65,294
Adjusted weighted average of ordinary shares in issue	65,505	66,252	65,294	65,511
	2006 Pence	2006 Pence	2005 Pence	2005 Pence
Earnings per share	30.3	30.0	12.9	12.8

7. Reconciliation of movements in equity attributable to equity holders of the parent

	Half year to 30 June 2006 £000	Half year to 30 June 2005 £000	Year to 31 December 2005 £000
Equity at start of period	111,058	85,358	85,358
Total recognised income and expense	14,454	12,760	32,091
Dividends to shareholders	(5,379)	(4,771)	(7,257)
Share-based payments	279	100	507
Share capital issued*	512	17	359
Equity at end of period	120,924	93,464	111,058

* Includes share premium.

Notes to the interim report continued

8. Analysis of closing net debt

	As at 30 June 2006 £000	As at 30 June 2005 £000	As at 31 December 2005 £000
Bank balances	24,479	20,461	25,906
Short-term deposits	–	2	4
Cash and cash equivalents in the balance sheet	24,479	20,463	25,910
Bank overdrafts	(5,498)	(10,533)	(2,603)
Cash and cash equivalents in the cash flow statement	18,981	9,930	23,307
Bank and other loans	(61,278)	(70,793)	(58,978)
Loan notes due within one year	(2,752)	(3,011)	(2,804)
Finance leases	(2,551)	(1,446)	(2,376)
Closing net debt	(47,600)	(65,320)	(40,851)

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