


Knowing Our Ground



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Chairman's Statement

Dr Michael West



Financial overview

I am pleased to report an excellent set of results for the six months ended 30 June 2007. The momentum of the past two years has continued through this first half, with strong overall trading, further margin enhancement and an impressive contribution from all our recent acquisitions.

Group revenue for the period was up 3% at £465.2m (2006: £450.0m). Operating profit was up 18% at £42.1m (2006: £35.7m) and the first-half operating margin rose to its highest-ever level of 9.0% (2006: 7.9%). On a constant currency basis, revenue increased by 9% and operating profit was up 27%. This strong Group profit performance is stated after a £5.3m operating loss in Makers in the period.

Profit before tax increased by 20% to £40.1m (2006: £33.4m) and earnings per share were up 23% at 37.2p (2006: 30.3p).

Cash generated from operations increased to £40.2m, compared to last year's £28.8m, underlining the quality of our earnings. The period-end net debt was £53.8m, which compares to £47.6m at the end of June 2006. This year-on-year increase is stated after expenditure of £29.5m on acquisitions and capital expenditure of £37.5m over the last 12 months. At more than twice depreciation, this level of capital expenditure is much

higher than historic levels in order to support the expanding workload and to invest for future growth.

Dividend

The Board has declared an interim dividend of 6.0p per share (2006: 4.2p). This represents one third of the expected total dividend for the year of 18.0p per share which is a 15% increase on the total 2006 dividend of 15.6p. This increase is in line with the new dividend policy announced at the time of our 2006 preliminary results. The interim dividend will be paid on 1 November 2007 to shareholders on the register at 5 October 2007.

Operational overview US

Our US operations as a whole had a very good first half. The commercial and public infrastructure markets remain extremely robust although, as anticipated, there was a further contraction in the residential market, which still shows no signs of abating. Total US revenue was 6% ahead of last year on a constant currency basis. Translated into sterling, revenue was 3% behind the previous year at £232.7m (2006: £241.1m), reflecting the significant weakening of the US dollar. Despite the currency impact, operating profit of £29.4m (2006: £27.8m) was up 6%, reflecting a further increase in the previously strong margin of the US foundation businesses.

Suncoast

As expected, given the severe decline in the residential sector, Suncoast's first-half trading was not as strong as last year. However, management took full advantage of buoyant demand for Suncoast's high-rise products, whilst continuing to deliver operational improvements, thus in part limiting the impact of the residential downturn. We expect pressure on prices to cause some erosion of high-rise margins in the second half.

Hayward Baker

Good contributions from all of its regions combined to give another excellent result from Hayward Baker.

One of the many noteworthy contracts completed by Hayward Baker in the first six months relates to the Combined Sewer Overflow Abatement Program in Providence, Rhode Island, involving the construction of seven underground storage facilities and three deep rock tunnel segments. The contract was bid by Donaldson, a business acquired by Hayward Baker in October 2005, and was undertaken using its own and other Hayward Baker resources. The work included driven piling, design and installation of excavation support and extensive jet grouting to support the tunnelling operations. This is one of several jobs in the first half requiring both Donaldson's and pre-existing Hayward Baker resources, illustrating the synergies from this acquisition.

Chairman's Statement

continued

Case

Case is on track to have another record year, with an extremely strong performance on many of the contracts undertaken in the first half.

Since the period end, Case has started work on a very large project to build the foundations for The Chicago Spire. The Spire, a 150-storey, 610-metre high residential tower, to be built overlooking the shores of Lake Michigan, is expected to be the tallest building in the US. It is envisaged that Case will install 34 steel-reinforced concrete caissons, 36 metres in length, drilled into bedrock, whilst Hayward Baker will construct a 32-metre diameter sheet-piled wall to create a dry work environment and to serve as the foundation for the core of the building.

McKinney

McKinney reported a very good first half in spite of weather-related delays on several of their contracts. The trend in recent years for McKinney to take on more large jobs, often in joint venture with other Group companies, continued over the first six months of this year, with the award of two power plant projects in joint venture with Case. Work on the first of these, the Fort Martin power plant in West Virginia, was around 25% complete at the end of June and is progressing well, whilst work on the Hatfield Ferry plant in Pennsylvania is expected

to start in October and should be substantially complete by the end of the year.

Anderson

Anderson, the Group's October 2006 acquisition, has made a smooth transition to Keller ownership, with a migration to the Group's principal accounting and reporting systems now complete. Anderson, whose contribution to the first half exceeded our most optimistic expectations at the time of acquisition, expects 2007 to be the busiest year in its history.

Continental Europe & Overseas

Continental Europe & Overseas reported another set of much improved results, with particularly significant contributions from Spain and the Middle East and an improvement in margins across most of its markets. Revenue of £136.2m (2006: £125.8m) was 8% ahead of the previous year, whilst operating profit of £13.7m nearly doubled (2006: £7.0m).

Our operations in Spain had another busy six months and, as expected, margins recovered following the measures taken last year to strengthen our resources and key business processes. Two contracts in particular made good contributions: emergency works in the Canary Islands to stabilise storm-damaged embankments which were in danger of collapsing onto an adjacent housing estate; and

extensive works at the southern Port of Huelva, including the largest area of compaction grouting works undertaken in Spain, as part of the port redevelopment project.

Our businesses in Eastern Europe continue to thrive, particularly in Poland where we have been progressively moving into the heavy foundations sector, resulting in an almost 80% increase in revenue in this first half compared with the same period last year. We continue to extend our reach in the region and in recent months have established a presence in Serbia and Romania.

After a slow start, we had a better second quarter in Germany, where we expect the increased pace to continue through the second half of the year.

The performance of the Overseas business was characterised by a strong first half in the Middle East. We expect to be extremely busy here for the remainder of the year with current work in Bahrain and Dubai, a major contract for the Al Raha Beach development in Abu Dhabi and three contracts with a total value of circa US\$80m (£40m) for the new Saudi Kayan petrochemical complex in Saudi Arabia. A significant portion of our current order book in the Middle East is for heavy foundations, an area of the market in which we have historically been under-represented.

“The prevalence of very large-scale development projects around the world, requiring complex foundation solutions, is playing to our strengths.”

Dr Michael West
Chairman

We are now seeing the benefit of a greater strategic focus and increased investment in heavy foundations capacity in this region.

UK

Keller Ground Engineering had a good first half, with a strong contribution from Phi, the retaining wall specialist acquired in April 2006. The Group's latest UK acquisition, Systems Geotechnique, also performed very well in its first few months under Keller ownership. Acquired in April 2007 for an initial cost of £9.1m including debt, this drilling and grouting specialist is being steadily assimilated into the Group and synergies with other parts of our UK foundation business are starting to be developed.

The Board's stated intention has been to return Makers to sustainable profitability. However, its performance over recent years has been very inconsistent, culminating in a reported operating loss of £5.3m (first half 2006: loss of £0.5m; full year 2006: loss of £0.2m) in this first half, mainly as a result of issues on two large contracts and a significant decline in volumes. Accordingly, following a strategic review, the Board has taken the decision to withdraw from this non-core business, to enable greater focus on the Group's strongly performing specialist ground engineering businesses.

After taking independent expert advice, the Board has concluded that a sale of Makers as a single business in its current form is unlikely to be achieved and therefore its various divisions will be sold or discontinued as appropriate. We anticipate that this process will be largely complete within the next six months and that it will result in a one-off charge, expected to be less than £10m, in the second half.

Australia

In Australia, where we continued to trade extremely well in the first half, our leading market position is helping our business to take full advantage of good opportunities, particularly in the infrastructure sector.

The award of a circa A\$72m (£30m) contract for piling and ground improvement works in Queensland is expected to underpin the revenue for this business in the second half. The Gateway Upgrade, located near Brisbane's International Airport, is the largest road and bridge infrastructure project in Queensland's history. The ground engineering works for the project are to be carried out by a joint venture led by Piling Contractors, which was acquired by Keller in August 2006. The joint venture also comprises our three other Australian companies: Frankipile, Vibro-Pile and Keller Ground Engineering. Test piles were completed earlier this year and the main works are due to complete by autumn 2008.

Outlook

The prevalence of very large-scale development projects around the world, requiring complex foundation solutions, is playing to our strengths. Increasingly, combined Group resources are co-operating on large projects, demonstrating the benefits of scale and the synergies between our businesses.

We enter the second half with an all-time high order book and with strong trading in most parts of the Group. In these favourable conditions, the Board now expects that the full-year results of the Group's continuing operations will significantly exceed last year's outstanding results.

Dr Michael West, Chairman
20 August 2007

Consolidated Income Statement

for the half year ended 30 June 2007

	Note	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
Revenue	3	465.2	450.0	920.2
Operating costs		(423.1)	(414.3)	(831.1)
Operating profit	3	42.1	35.7	89.1
Finance income		1.5	0.9	2.3
Finance costs		(3.5)	(3.2)	(7.7)
Profit before taxation		40.1	33.4	83.7
Taxation before one-off tax credit		(14.5)	(13.1)	(30.7)
One-off tax credit		–	–	3.8
Total taxation	4	(14.5)	(13.1)	(26.9)
Profit for the period		25.6	20.3	56.8
Attributable to:				
Equity holders of the parent		24.5	19.9	55.7
Minority interests		1.1	0.4	1.1
		25.6	20.3	56.8
Basic earnings per share	6	37.2p	30.3p	84.8p
Earnings per share before one-off tax credit	6	37.2p	30.3p	79.0p
Diluted earnings per share	6	36.7p	30.0p	83.7p
Diluted earnings per share before one-off tax credit	6	36.7p	30.0p	78.0p

Consolidated Statement of Recognised Income and Expense

for the half year ended 30 June 2007

	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
Foreign exchange translation differences	(0.1)	(6.0)	(8.0)
Actuarial gains/(losses) on defined benefit pension schemes	1.8	0.7	(0.1)
Tax on items taken directly to equity	(0.5)	(0.2)	0.1
Net income/(expense) recognised directly in equity	1.2	(5.5)	(8.0)
Profit for the period	25.6	20.3	56.8
Total recognised income and expense for the period	26.8	14.8	48.8
Attributable to:			
Equity holders of the parent	25.7	14.4	47.9
Minority interests	1.1	0.4	0.9
	26.8	14.8	48.8

Consolidated Balance Sheet

as at 30 June 2007

	Note	As at 30 June 2007 £m	As at 30 June 2006 £m	As at 31 December 2006 £m
Assets				
Non-current assets				
Intangible assets		63.9	58.9	57.5
Property, plant and equipment		130.8	93.5	114.6
Deferred tax assets		8.3	7.7	7.9
Other assets		12.4	–	8.8
		215.4	160.1	188.8
Current assets				
Inventories		27.4	25.7	25.5
Trade and other receivables		260.5	236.0	221.7
Cash and cash equivalents	8	17.9	24.5	25.2
		305.8	286.2	272.4
Total assets		521.2	446.3	461.2
Liabilities				
Current liabilities				
Loans and borrowings		(7.1)	(10.2)	(6.8)
Current tax liabilities		(10.6)	(10.1)	(9.4)
Trade and other payables		(222.2)	(204.3)	(192.4)
		(239.9)	(224.6)	(208.6)
Non-current liabilities				
Loans and borrowings		(64.6)	(61.9)	(57.0)
Employee benefits		(18.2)	(15.5)	(18.8)
Deferred tax liabilities		(6.1)	(4.9)	(6.2)
Other liabilities		(13.6)	(12.8)	(11.5)
		(102.5)	(95.1)	(93.5)
Total liabilities		(342.4)	(319.7)	(302.1)
Net assets		178.8	126.6	159.1
Equity				
Share capital		6.6	6.6	6.6
Share premium account		37.4	36.8	37.1
Capital redemption reserve		7.6	7.6	7.6
Translation reserve		(4.5)	(2.7)	(4.5)
Retained earnings		124.3	72.6	105.6
Equity attributable to equity holders of the parent	7	171.4	120.9	152.4
Minority interests		7.4	5.7	6.7
Total equity		178.8	126.6	159.1

Consolidated Cash Flow Statement

for the half year ended 30 June 2007

Note	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
Cash flows from operating activities			
	42.1	35.7	89.1
Operating profit			
Depreciation of property, plant and equipment	7.9	6.5	13.4
Amortisation of intangible assets	0.1	–	2.4
Gain on sale of property, plant and equipment	(0.2)	(0.3)	(0.6)
Other non-cash movements	0.5	0.1	0.2
Foreign exchange gains	(0.8)	–	(0.2)
Operating cash flows before changes in working capital and provisions			
	49.6	42.0	104.3
Movement in long-term liabilities and employee benefits	(3.1)	(4.1)	(1.7)
Increase in inventories	(2.2)	(1.9)	(3.0)
Increase in trade and other receivables	(33.8)	(46.0)	(30.6)
Increase in trade and other payables	29.7	38.8	29.3
Cash generated from operations			
	40.2	28.8	98.3
Interest paid	(2.5)	(2.5)	(6.2)
Income tax paid	(14.0)	(15.9)	(30.7)
Net cash inflow from operating activities			
	23.7	10.4	61.4
Cash flows from investing activities			
Interest received	0.7	0.3	1.1
Proceeds from sale of property, plant and equipment	1.0	1.0	2.0
Acquisition of subsidiaries, net of cash acquired	(9.0)	(5.9)	(26.4)
Acquisition of property, plant and equipment	(22.8)	(12.9)	(29.4)
Acquisition of other non-current assets	(1.7)	–	(2.6)
Net cash outflow from investing activities			
	(31.8)	(17.5)	(55.3)
Cash flows from financing activities			
Proceeds from the issue of share capital	0.4	0.5	0.8
New borrowings	8.1	9.5	3.0
Payment of finance lease liabilities	(0.2)	(0.1)	(2.1)
Dividends paid	(8.0)	(6.2)	(9.0)
Net cash inflow/(outflow) from financing activities			
	0.3	3.7	(7.3)
Net decrease in cash and cash equivalents			
	(7.8)	(3.4)	(1.2)
Cash and cash equivalents at beginning of period			
	20.3	23.3	23.3
Effect of exchange rate fluctuations	0.1	(0.9)	(1.8)
Cash and cash equivalents at end of period			
8	12.6	19.0	20.3

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 2006.

The figures for the year to 31 December 2006 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 2007	Half year to 30 June 2006	Year to 31 December 2006
US dollar:	average for period	1.97	1.79	1.84
	period end	2.00	1.82	1.96
Euro:	average for period	1.48	1.46	1.47
	period end	1.49	1.45	1.49
Australian dollar:	average for period	2.44	2.41	2.45
	period end	2.36	2.49	2.49

3. Segmental analysis

	Revenue			Operating profit		
	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
United Kingdom	56.7	60.0	123.2	(3.6)	0.9	3.2
North America	232.7	241.1	476.9	29.4	27.8	64.1
Continental Europe & Overseas	136.2	125.8	255.0	13.7	7.0	17.9
Australia	39.6	23.1	65.1	4.6	2.2	7.0
	465.2	450.0	920.2	44.1	37.9	92.2
Central items and eliminations	–	–	–	(2.0)	(2.2)	(3.1)
	465.2	450.0	920.2	42.1	35.7	89.1

4. Taxation

Taxation based on the profit before tax is:

	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
UK corporation tax at 30% (2006: 30%)	(0.7)	–	(3.8)
Overseas tax	15.2	13.1	30.7
	14.5	13.1	26.9

Notes to the Interim Report continued

5. Dividends paid

Ordinary dividends on equity shares:

	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the year ended 31 December 2006 of 11.4p (2005: 8.2p) per share	7.5	5.3	5.3
Interim dividend for the year ended 31 December 2006 of 4.2p per share	–	–	2.8
	7.5	5.3	8.1

In addition to the above, an interim ordinary dividend of 6.0p per share (2006: 4.2p) will be paid on 1 November 2007 to shareholders on the register at 5 October 2007. 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:

	Half year to 30 June 2007 Basic £m	Half year to 30 June 2007 Diluted £m	Half year to 30 June 2006 Basic £m	Half year to 30 June 2006 Diluted £m
Profit attributable to equity holders of the parent	24.5	24.5	19.9	19.9

	No. of shares 000s	No. of shares 000s	No. of shares 000s	No. of shares 000s
Weighted average of ordinary shares in issue	65.8	65.8	65.5	65.5
Adjusted weighted average of ordinary shares in issue	65.8	66.8	65.5	66.3

	Half year to 30 June 2007 Pence	Half year to 30 June 2007 Pence	Half year to 30 June 2006 Pence	Half year to 30 June 2006 Pence
Earnings per share	37.2	36.7	30.3	30.0

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

	Half year to 30 June 2007 £m	Half year to 30 June 2006 £m	Year to 31 December 2006 £m
Equity at start of period	152.4	111.1	111.1
Total recognised income and expense	25.7	14.4	47.9
Dividends to shareholders	(7.5)	(5.3)	(8.1)
Share-based payments	0.4	0.2	0.8
Share capital issued*	0.4	0.5	0.7
Equity at end of period	171.4	120.9	152.4

* Includes share premium.

8. Analysis of closing net debt

	As at 30 June 2007 £m	As at 30 June 2006 £m	As at 31 December 2006 £m
Bank balances	17.7	24.5	25.1
Short-term deposits	0.2	–	0.1
Cash and cash equivalents in the balance sheet	17.9	24.5	25.2
Bank overdrafts	(5.3)	(5.5)	(4.9)
Cash and cash equivalents in the cash flow statement	12.6	19.0	20.3
Bank and other loans	(62.7)	(61.3)	(56.1)
Loan notes due within one year	–	(2.8)	–
Finance leases	(3.7)	(2.5)	(2.8)
Closing net debt	(53.8)	(47.6)	(38.6)

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