

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 2008, save as otherwise explained in the paragraph headed 'Compliance with the Code' on page 40, 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 28 and 29. All these Directors served throughout the year. In addition, Mr Keith Payne served on the Board until he retired on 31 January 2008. 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 scheduled meetings during the year.

A table showing attendance at these meetings, and at meetings of Board Committees, is set out on page 39. All Directors receive Board papers well in advance of meetings and it is usual for Directors who cannot attend a given meeting to discuss the business of the meeting in advance with the Chairman or the Senior Independent Director, in order to have input into the Board's deliberations.

One of the Board meetings in 2008 was held in the US, 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.

Directors' conflicts of interests

Section 175 of the Companies Act 2006, which came into effect from 1 October 2008, provides that directors have a statutory duty to avoid a situation in which they have, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. During the year, the Board reviewed the interests of the Directors which, with the exception referred to below, did not represent conflicts or potential conflicts with the Company.

The Board considered Mr López Jiménez's interest as Chairman and a shareholder in GTCEISU Construcción, S.A (GTCEISU). In 2002, GTCEISU and Keller created Keller-Terra S.L. – a joint venture for the development of the business in Spain, which is 51% owned by the Group.

The Board recognised that the co-operation between Keller and GTCEISU and Mr López Jiménez's subsequent appointment brought clear benefits to the Company in terms of business development, industry knowledge and expertise. Mr López Jiménez's other interests in the ground engineering sector were well known to the Board at the time of his appointment. Accordingly, the Board concluded that it was in the best interests of the Company to retain the services of Mr López Jiménez as a Director of the Company and, in accordance with the authority granted by shareholders at the Company's 2007 Annual General Meeting, the Board authorised the potential conflict presented by his interest in GTCEISU, subject to certain conditions and to an annual review.

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 certain 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

During the year, the Board undertook a formal evaluation of its performance and that of its Committees. Independent consultants, Corporate Partners Ltd, carried out structured one-on-one interviews with individual Directors, based on a standard set of topics and questions. The report of Corporate Partners Ltd was discussed collectively by the Board and a number of follow-up actions were agreed. The performance of the Chairman is reviewed separately in a process led by the Senior Independent Director.

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 (2)	Audit Committee meetings (4)	Nomination Committee meetings (1)
Dr J M West (Chairman)	8	n/a	n/a	1
J R Atkinson (Chief Executive)	8	n/a	n/a	1
J W G Hind (Finance Director)	8	n/a	n/a	n/a
R M Rubright (Executive Director)	8	n/a	n/a	n/a
Dr W Sondermann (Executive Director)	8	n/a	n/a	n/a
Dr K Bond (Non-executive Director)	7	2	4	1
E G F Brown (Non-executive Director)	7	2	3	1
R A Franklin (Non-executive Director)	8	2	4	1
P J López Jiménez (Non-executive Director)	6	n/a	n/a	n/a
R T Scholes (Non-executive Director)	8	2	4	1

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

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 32. 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 32 to 37.

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 Franklin, and Mr Scholes. Mr Payne was a member of the Committee until his retirement on 31 January 2008. 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 where internal candidates have already been identified.

The Committee met once during the year to consider the composition of the Board and made certain recommendations to the Board which are currently under consideration.

Audit Committee

The Audit Committee is chaired by Mr Scholes, who is a Chartered Accountant. The other members during the year were Dr Bond, Mr Brown and Mr Franklin. Mr Payne was a member of the Committee until his retirement on 31 January 2008. All members of the Committee are Independent Non-executive Directors. The Board has satisfied itself that at least one member of the Committee has recent and relevant financial experience.

This Committee usually meets four times a year, with the Company's external Auditors (the Auditors) in attendance. At least twice a year, the Committee meets privately with the 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 2008, the Audit Committee has discharged its responsibilities by:

- reviewing the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the Auditors;
- reviewing and approving the Auditors' engagement letter and audit fee;

- 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 the Group's draft financial statements prior to Board approval and reviewing the Auditors' reports thereon;
- reviewing the Group's whistle-blowing policy and monitoring the procedures in place for employees to be able to raise matters of possible impropriety;
- reviewing the Group's policy on the employment of former employees of the Auditor;
- reviewing the Group's policy on employment of the Auditors for non-audit services;
- reviewing the Committee's terms of reference and evaluating its effectiveness;
- reviewing the need for an internal audit function; and
- approving a rolling three-year programme of independent reviews of aspects of the Group's operations and financial controls and receiving reports on all reviews carried out during the year.

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. The Committee remained of the view 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's annual evaluation of the Auditors focused 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 or 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.