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 June 2008 Combined Code as set out at www.frc.org.uk/corporate/ukcgcode.cfm (the 'Code'). Throughout the year to 31 December 2010, save as otherwise explained in the paragraph headed 'Compliance with the Code' on page 34, 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 it last reviewed in February 2010.

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; providing leadership for, and reviewing the Group's performance in, environmental, health and safety matters; 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 Board 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 Mr Franklin 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 16 and 17. All of these Directors served throughout the year with the exception of Ms Cairnie and Mr Girling who joined the Board on 1 June 2010 and 28 February 2011 respectively. In addition, Dr Bond served on the Board until May 2010.

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. 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.

Mr Franklin was independent at the time of his appointment as Chairman on 1 August 2009. His other professional commitments are as detailed on page 17.

Mr López Jiménez is associated with GTCEISU Construcción, S.A. (GTCEISU), which is a 49% shareholder in Keller-Terra S.L. and a 5.6% 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.

Dr Bond, who stood down in May 2010, had served on the Board for more than nine years and, accordingly, in his last few months on the Board was not deemed to be independent of management under the Code.

The Board considers all the other Non-executive Directors to have been independent of management throughout the year.

Looking beyond 2010, Mr Brown and Mr Scholes, having both now served on the Board for more than nine years, are no longer deemed independent under the Code, although the Board is of the view that their objectivity and willingness to challenge management have not been compromised in any way by their tenure on the Board. After his long association with the Company, during which time he has made an important contribution, Mr Scholes will stand down at the next Annual General Meeting and will be succeeded as Chairman of the Audit Committee by Mr Girling.

Mr Brown will retire by rotation and will stand for re-election. If he is re-elected, it is the Board's intention that, in the interest of continuity, he should remain, until May 2012 at the latest, as Senior Independent Director and Chairman of the Remuneration Committee, both senior roles which he has performed with commitment and diligence. As the process of refreshing the Board continues and more recently appointed Non-executive Directors gain a deeper knowledge of the Group, it is anticipated that these senior roles will be taken on by others.

Corporate governance
Continued

There is an agreed procedure for any Director of the Company (whether executive or non-executive), both individually and collectively, to obtain independent professional advice. This procedure was reviewed by the Board and updated during the year. 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 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 33. 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 to the Board's deliberations.

As part of our policy of holding at least one Board meeting a year at an operational location, one of the Board meetings in 2010 was held in France and was combined with a visit to the Group's joint venture operation in Spain. This gave the Board an opportunity to receive presentations on the regions' markets and prospects and to meet some of the Group's senior managers.

Directors' conflicts of interests
Section 175 of the Companies Act 2006 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 conducted its annual review of the interests of the Directors which, with the exception referred to below, did not present any conflicts or potential conflicts with the Company.

The Board again reviewed 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.

As at the previous review, 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 continued to be 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 2008 Annual General Meeting, the Board authorised the potential conflict presented by his interest in GTCEISU, subject to certain conditions and to continued annual reviews.

Professional development
On appointment, Directors are provided with induction training and 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. During the year, the induction process for new Directors was reviewed and updated.

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, Mr Brown, as Senior Independent Director, led an evaluation of the performance of the Chairman. He conducted this process through a series of interviews with other Board members and the Secretary, followed by a feedback session with the Chairman.

A formal evaluation of the effectiveness of the Board and individual Directors was led by the Chairman, who held one to one meetings with all Directors. These meetings gave the Chairman an opportunity to give specific feedback to Directors and were followed by a report back to, and discussion by, the full Board. Following this process, the Chairman has confirmed that the Directors standing for election at this year's Annual General Meeting continue to perform effectively and to demonstrate commitment to their roles.

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 Chief Executive and Finance Director regularly meet with and make 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. All major shareholders have the opportunity on request to meet the Chairman, the Senior Independent Director or, on appointment, any new Non-executive Directors. On a regular basis, the Board is apprised of the views of the investment community through the circulation of brokers' research notes and feedback from analysts and investors, supplemented by occasional investor perception surveys.

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 (3)	Audit Committee meetings (4)	Nomination Committee meetings (2)
R A Franklin (Chairman)	8	n/a	n/a	2
J R Atkinson (Chief Executive)	8	n/a	n/a	2
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 until 17/5/10)	3	2	1	1
E G F Brown (Non-executive Director)	8	3	4	2
P J López Jiménez (Non-executive Director)	7	n/a	n/a	n/a
R T Scholes (Non-executive Director)	8	3	4	2
R Cairnie (Non-executive Director since 1/6/10)	5	1	2	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 were reviewed and, where appropriate, updated during the year. They are available on the Company's website (www.keller.co.uk) and on request from the Company Secretary.

Cross membership ensures that decisions of the three committees are consistent and, where appropriate, integrated.

Remuneration Committee

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 (until 17 May 2010)
R Cairnie (from 1 June 2010)
R T Scholes

Apart from Dr Bond, who had served for more than nine years and was not, therefore, deemed to be independent under the Code in his last few months on the Board, all other members of the Committee were independent throughout the period of their membership.

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 25 to 30.

Nomination Committee

The Nomination Committee is chaired by the Chairman of the Board, except to the extent that it deals with succession to the chairmanship of the Board, in which case the Senior Independent Director assumes this role. The names of members of the Committee during the year are given below. All members served on the Committee throughout the year, except where indicated.

Committee members

R A Franklin (Chairman)
J R Atkinson
Dr K Bond (until 17 May 2010)
E G F Brown
R Cairnie (from 1 June 2010)
R T Scholes

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 exceptional internal candidates have already been identified.

The Committee met twice during the year to consider the overall composition of the Board.

Audit Committee

The Audit Committee is chaired by Mr Scholes, who is a Chartered Accountant. The names of members of the Committee during the year are given below. All served on the Committee throughout the year except where indicated and all, apart from Dr Bond in his last few months on the Board, were independent according to the Code. The Board has satisfied itself that at least one member of the Committee has recent and relevant financial experience.

Committee members

R T Scholes (Chairman)
Dr K Bond (until 17 May 2010)
E G F Brown
R Cairnie (from 1 June 2010)

This 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.

This Committee met four times during the year, with the Company's external Auditors (the 'Auditors') in attendance and on three of these occasions, the Committee met privately with the Auditors without management being present. During the year, the Audit Committee 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 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;

Corporate governance
Continued

- 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 Auditors;
- 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.

A number of policy changes were made following reviews by the Audit Committee. For example, the threshold above which any work awarded to the Auditors, other than audit or tax compliance, requires the specific approval of the Committee, which had not changed since the policy was first introduced in 2003, was raised from £50,000 to £100,000. The proviso that, where the Committee perceives that the independence of the Auditors could be compromised the work will not be awarded to them, was reaffirmed. Details of the amounts paid to the Auditors during the year for audit and other services are set out in the notes to the consolidated financial statements.

In reviewing the need for an internal audit function, the Committee considered the principle of having a structured programme of independent reviews carried out by an outsourced provider rather than an internal audit department and concluded that this was still the best approach. This conclusion was reached having regard to the Group's broad geographic spread, its cultural diversity and the nature of its key risks. Following a comprehensive selection process involving the Chairman of the Audit Committee, PricewaterhouseCoopers were appointed in July as the sole provider of outsourced reviews. They attended one meeting of the Audit Committee in 2010, at which their internal audit plan for 2011 was approved and in future they will present their reports to the Committee twice yearly.

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.

Compliance with the Code
The Board believes that the Company was compliant with the Code throughout the year, save in respect of the requirement for at least half the board, excluding the chairman, to comprise independent non-executive directors. This is discussed in the paragraph headed 'Directors and Directors' independence' above and in the Chairman's Statement.

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, health and safety risks, 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 process was formally reviewed by the Board during the year and in future this review will be conducted annually.

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 both to the specific risks associated with the contract and to 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.

On average, our contracts will have a duration of around six weeks but larger contracts may extend over several months. The performance of contracts is monitored and reported 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.

Further detail on the management of project risk is provided in the section headed ‘Principal risks and uncertainties’ on page 7.

(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, 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. As discussed in the section headed ‘Audit Committee’, since July 2010 this programme has been undertaken by PricewaterhouseCoopers. The 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.

The management of financial risks is described in the Financial Review and the management of the principal risks and uncertainties facing the Group is described in the Operating Review.