more than meets the eye

Keller Group plc Interim Report 2003

KELLER

Chairman's statement

Financial overview

I am pleased to report further progress in the first half of 2003, with Group sales up 11% at £278.7m (2002: £250.5m) and profit before tax, exceptionals and amortisation of intangibles up 7% at £12.8m (2002: £12.0m). Adjusted earnings per share were down at 11.6p (2002: 12.8p), mainly reflecting the issue of 5.2m shares in December 2002 in connection with the financing of McKinney and of our 51% share in Keller-Terra.

While the first half was characterised by a strong performance from the Continental Europe and Overseas business and a steadily improving performance from the US foundations business, trading in the UK was disappointing. As announced in our trading statement on 27 June 2003, we have implemented a number of actions to improve performance in our two UK businesses, Makers and KGE, as a result of which exceptional restructuring costs of £0.7m were charged in the first half. Total restructuring costs in the year are expected to be around £2m.

Operating cash flow was £9.9m, down on last year's exceptionally strong £18.3m. Working capital increased in the period, mainly reflecting high activity levels in the second quarter, particularly at Suncoast, and growth in southern Europe where working capital levels are generally higher. The Group's EBITDA net interest cover remained comfortable at 11 times on a pro-forma, rolling 12-month basis (2002: 10 times).

The average foreign currency exchange rate of the US Dollar against Sterling was 11% weaker than in the first half of 2002, whilst the Euro against Sterling was 9% stronger. Cumulatively, this had an adverse effect on operating profit before exceptionals and amortisation of intangibles of £0.6m.

Dividend

The directors have declared an interim dividend of 3.45p per share (2002: 3.3p), representing an increase of 4.5%. This will be paid on 31 October 2003 to shareholders on the register at 3 October 2003. This increase is in line with our policy of maintaining a healthy dividend cover and seeking to reward shareholders with above inflation increases, whilst at the same time reinvesting our cash flow into the continued growth of the Group.

Operational overview

Foundation Services

Foundation Services produced another good set of results in challenging conditions. Sales of £198.8m (2002: £173.8m) and operating profit before exceptionals and amortisation of intangibles of £13.2m (2002: £10.8m), were respectively some 14% and 23% ahead of the previous year. Operating margins improved from 6.2% to 6.6%.

North America
The public infrastructure sector of the US construction market remained resilient, although we saw continued weakness in the commercial sector. Despite this, Case, which predominantly serves the commercial sector, gave another strong first half performance, having entered the year with a healthy order backlog. In particular, Case Atlantic made an excellent contribution, helped by a good result from the large Cooper River Bridge project in Charleston, South Carolina. McKinney experienced a slow start to the year, with several projects delayed due to exceptionally wet weather along the eastern seaboard; however, some improvement in the second quarter produced a satisfactory half year result. Both order books are well filled through the third quarter of this year and we are confident of their ability to continue to win business.

After a much improved second quarter, Hayward Baker returned a first half result close to last year's strong first half. Its most significant contract during the period was a soil mixing project for oil storage tanks in Louisiana, which generated some $6m of sales. Current activity levels, together with a good order book, indicate that the business is well placed for the second half.

Continental Europe & Overseas
Despite challenging market conditions in several of our markets, our Continental Europe & Overseas business had a good first half. Germany, Switzerland, France and Portugal all saw reductions in construction volume whilst elsewhere in Europe, most notably in Spain, Italy, Austria, Sweden and Poland, high levels of public infrastructure spending continued to support demand. Against this market background, sales and margin held up well, with good results from our Austrian operation and from our developing business in Poland. In particular, the performance of LCM, our 50% owned subsidiary in Sweden, was excellent and Keller-Terra, our 51%-owned Spanish venture acquired in December last year, made a very good first-half contribution, resulting in a significantly improved margin for the Continental Europe & Overseas business overall.

Chairman's statement continued

Our Overseas businesses experienced a number of project delays in Singapore and in the Middle East, although recent indications suggest that trading in these regions is now returning to more normal levels. The results were also helped by an impressive contribution from Malaysia, where Keller is undertaking vibro replacement work on several large public infrastructure projects.

UK
Market conditions in the UK foundations sector were stable, with the housing sector remaining strong and the commercial and infrastructure sectors generally flat. Volumes within our UK foundations business were up on the same period last year and the geotechnical and ground improvement businesses performed solidly. However, the overall result was diluted by weak margins from the piling business, where competition from the specialist subsidiaries of general contractors continues to result in overcapacity in the market.

In our June trading statement we said that we would be taking steps to address poor performance in the UK foundations business and subsequently we have withdrawn from the under-performing heavy piling activities. This leaves the business focused on its higher value-added products which, together with a streamlining of processes and reduction in headcount, are expected to improve margins going forward.

Australia
Following a sluggish start to the year, activity improved in the second quarter to produce a half-year result in line with expectations. Our Franki business performed well although, as anticipated, Vibropile, which we acquired in August 2002, did not repeat its exceptional contribution in the second half of last year.

Specialist Services

The results for Specialist Services did not meet expectations, with sales of £79.9m (2002: £76.7m) and an operating profit before exceptionals and amortisation of intangibles of £3.1m (2002: £4.2m). This shortfall was largely attributable to a weak performance from Makers.

North America
The residential sector of the North American construction market remained strong, particularly in the Southern States served by Suncoast's slab-on-grade business. Although the commercial sector generally was weak, Suncoast's high-rise activity improved following an expansion into new regions and a resultant increase in market share. However, the exceptionally wet weather at the start of the year restricted activity levels and impacted on Suncoast's first quarter performance. The second quarter saw a progressive recovery in volume but increases in the cost of Suncoast's main raw material, resulting from the introduction of new tariffs on imports of steel strand, put pressure on margins in June. As a result, Suncoast is introducing a programme of price increases which are expected to restore gross margins in the fourth quarter. This, together with a healthy high-rise order book, is likely to produce a full year result broadly in line with last year.

UK
Makers' first half was impacted by poor productivity in the highways division of its infrastructure business; the cancellation of a new-build car park contract; and disappointing spend under its London-based partnering agreements for social housing refurbishment. Our June trading statement indicated that a restructuring programme was underway, which has led to an exit from the reactive maintenance business through the disposal of our 50% share of the London-based reactive maintenance joint venture and closure of Makers' own reactive maintenance business based in the West Midlands. Our social housing business is now focussed on planned capital maintenance projects, predominantly in the London area, but with scope to expand to other regions. Our car parks business, both new build and refurbishment, has been amalgamated into our infrastructure business. These actions, together with a reduction in headcount, are expected to improve margins going forward. A further update on Makers' strategy will be provided at the time of the preliminary results in March 2004.

Board changes

In March we announced our Board succession planning. These management changes were completed with the appointment of James Hind, who joined the Board on 15 July 2003 as Finance Director. James takes over from Justin Atkinson, who in March was appointed Chief Operating Officer. The Board now has a balance of new blood and management continuity together with the blend of talents required to lead the next stage of the Group's development.

With the new team secured, Tom Dobson, who joined the Group in 1966 and has been Chief Executive for the past six years, plans to retire from his position and from the Board in Spring 2004. We are indebted to Tom for his enormous contribution to the Group and we will continue to benefit from his wisdom and experience, as he will remain an adviser to the Group for a further three years. It is planned that Justin Atkinson will succeed Tom as Chief Executive.

Outlook

As we go into the second half, we anticipate little change in our major markets for the remainder of the year. Overall our strong business fundamentals and an order book representing four months' sales, gives us confidence that we will report a further year of growth.

Dr J M West
Chairman
22 August 2003

Consolidated profit and loss account

for the half year ended 30 June 2003

	Note	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Turnover from continuing operations	3	**278,730**	250,494	510,971
Operating costs		**(266,489)**	(238,235)	(479,727)
Operating profit				
Before exceptional items and amortisation of intangibles	3	**14,904**	13,826	34,344
Exceptional items		**(748)**	–	–
Amortisation of intangibles		**(1,915)**	(1,567)	(3,100)
Operating profit from continuing operations		**12,241**	12,259	31,244
Net interest payable		**(2,071)**	(1,822)	(3,914)
Profit on ordinary activities before taxation				
Before exceptional items and amortisation of intangibles		**12,833**	12,004	30,430
Exceptional items		**(748)**	–	–
Amortisation of intangibles		**(1,915)**	(1,567)	(3,100)
Profit on ordinary activities before taxation		**10,170**	10,437	27,330
Tax on profit on ordinary activities		**(4,292)**	(4,118)	(10,684)
Tax on exceptional items		**224**	–	–
Taxation	4	**(4,068)**	(4,118)	(10,684)
Profit on ordinary activities after taxation		**6,102**	6,319	16,646
Equity minority interests		**(1,004)**	(256)	(233)
Profit for the period		**5,098**	6,063	16,413
Dividends proposed	5	**(2,245)**	(1,970)	(6,284)
Retained profit for the period		**2,853**	4,093	10,129
Earnings per share	6	**7.9p**	10.2p	27.5p
Adjusted earnings per share *		**11.6p**	12.8p	32.7p
Diluted earnings per share	6	**7.9p**	10.1p	27.3p
Dividend per share	5	**3.45p**	3.3p	9.9p

* Adjusted earnings per share is calculated before exceptional items and amortisation of intangibles.

Consolidated statement of total recognised gains and losses

for the half year ended 30 June 2003

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Profit for the period	**5,098**	6,063	16,413
Currency translation differences on overseas investments	**1,083**	311	(107)
Total recognised gains and losses	**6,181**	6,374	16,306

Consolidated balance sheet

as at 30 June 2003

	Note	As at 30 June 2003 £'000	As at 30 June 2002 £'000	As at 31 December 2002 £'000
Fixed assets				
Positive goodwill		**66,398**	58,467	68,529
Negative goodwill		**(142)**	(53)	(2,239)
		66,256	58,414	66,290
Other intangible assets		**287**	337	374
Intangible assets		**66,543**	58,751	66,664
Tangible assets		**83,633**	61,626	79,815
Investments		**–**	1,379	–
		150,176	121,756	146,479
Current assets				
Stocks		**17,434**	12,141	15,147
Debtors		**152,705**	124,814	143,897
Cash at bank and in hand		**12,340**	7,875	16,206
		182,479	144,830	175,250
Creditors: amounts falling due within one year		**(154,184)**	(129,838)	(141,404)
Net current assets		**28,295**	14,992	33,846
Total assets less current liabilities		**178,471**	136,748	180,325
Creditors: amounts falling due after more than one year		**(63,235)**	(51,878)	(72,341)
Provisions for liabilities and charges		**(10,392)**	(6,814)	(7,840)
Net assets		**104,844**	78,056	100,144
Capital and reserves				
Called up share capital		**6,507**	5,974	6,498
Share premium account		**35,374**	22,266	35,293
Capital redemption reserve		**7,629**	7,629	7,629
Profit and loss account		**50,430**	40,876	46,494
Equity shareholders' funds	7	**99,940**	76,745	95,914
Equity minority interests		**4,904**	1,311	4,230
		104,844	78,056	100,144

Consolidated cash flow statement

for the half year ended 30 June 2003

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Net cash inflow from operating activities	**9,936**	18,331	43,171
Returns on investment and servicing of finance	**(2,378)**	(2,171)	(4,358)
Taxation	**(5,772)**	(5,817)	(8,975)
Capital expenditure	**(7,489)**	(6,319)	(12,700)
Acquisitions and disposals	**207**	(591)	(32,042)
Equity dividends paid	**(4,404)**	(3,611)	(5,609)
Net cash (outflow) before use of liquid resources and financing	**(9,900)**	(178)	(20,513)
Management of liquid resources	**369**	633	(61)
Financing	**(4,980)**	(6,641)	31,254
(Decrease)/increase in cash in period	**(14,511)**	(6,186)	10,680
Exchange differences on cash balances	**570**	–	75
(Decrease)/increase in short term bank deposits	**(258)**	(691)	235
Decrease/(increase) in bank loans	**3,676**	6,043	(16,553)
Decrease in loan notes	**1,451**	2,776	1,595
Decrease/(increase) in finance leases	**244**	(169)	(825)
(Increase)/decrease in net debt	**(8,828)**	1,773	(4,793)
Opening net debt	**(67,995)**	(63,202)	(63,202)
Closing net debt	**(76,823)**	(61,429)	(67,995)
Analysis of closing net debt			
Cash in hand	**10,257**	6,460	13,865
Bank overdrafts	**(12,565)**	(11,768)	(2,232)
Net (overdraft)/cash	**(2,308)**	(5,308)	11,633
Short term bank deposits	**2,083**	1,415	2,341
Bank loans	**(69,871)**	(50,951)	(73,547)
Loan notes	**(3,852)**	(4,122)	(5,303)
Finance leases	**(2,875)**	(2,463)	(3,119)
Closing net debt	**(76,823)**	(61,429)	(67,995)

Notes to the interim report

1 Basis of preparation

This interim report, which is unaudited, was approved by the board of directors on 21 August 2003 and has been prepared following the accounting policies set out in the Group's 2002 Annual Report and Accounts. The figures for the year to 31 December 2002 have been extracted from the 2002 Annual Report and Accounts which received an unqualified auditors' report and which has been filed with the Registrar of Companies.

2 Exchange rates

The exchange rates used in respect of principal currencies are:

		Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Euro:	average for period	**1.46**	1.61	1.59
	period end	**1.44**	1.55	1.53
US Dollar:	average for period	**1.61**	1.45	1.50
	period end	**1.65**	1.53	1.60
Australian Dollar:	average for period	**2.62**	2.70	2.77
	period end	**2.47**	2.72	2.84

3 Segmental analysis

Turnover and operating profit may be analysed as follows:

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Turnover from continuing operations			
Class of business			
Foundation Services	**198,848**	173,839	361,441
Specialist Services	**79,882**	76,655	149,530
	278,730	250,494	510,971
Geographical origin			
United Kingdom	**57,142**	50,228	106,738
The Americas	**130,571**	127,505	242,567
Continental Europe and Overseas	**78,783**	64,014	135,599
Australia	**12,234**	8,747	26,067
	278,730	250,494	510,971

Notes to the interim report continued

3 Segmental analysis continued

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Operating profit from continuing operations before exceptional items and amortisation of intangibles			
Class of business			
Foundation Services	**13,237**	10,767	27,678
Specialist Services	**3,053**	4,233	8,829
	16,290	15,000	36,507
Geographical origin			
United Kingdom	**930**	1,771	4,323
The Americas	**9,104**	9,867	22,338
Continental Europe and Overseas	**5,447**	3,179	8,042
Australia	**809**	183	1,804
	16,290	15,000	36,507
Unallocated central costs	**(1,386)**	(1,174)	(2,163)
	14,904	13,826	34,344

	Amortisation of intangibles £'000	Exceptional items £'000	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Exceptional items and amortisation of intangibles					
Class of business					
Foundation Services	439	330	**769**	169	292
Specialist Services	1,476	418	**1,894**	1,398	2,808
	1,915	748	**2,663**	1,567	3,100
Geographical origin					
United Kingdom	252	748	**1,000**	144	376
The Americas	1,343	–	**1,343**	1,443	2,802
Continental Europe and Overseas	334	–	**334**	32	122
Australia	(14)	–	**(14)**	(52)	(200)
	1,915	748	**2,663**	1,567	3,100

Exceptional items comprise reorganisation costs in respect of the UK businesses. There were no exceptional items in the prior year.

4 Taxation

Taxation based on the profit on ordinary activities is:

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
UK corporation tax at 30% (2002: 30%)	**(861)**	87	342
Overseas tax	**5,017**	3,923	9,555
Deferred tax	**(104)**	85	1,817
Under/(over) provisions in respect of prior periods	**16**	23	(1,030)
	4,068	4,118	10,684

5 Dividends proposed and paid

	Half year to 30 June 2003 £'000	Half year to 30 June 2002 £'000	Year to 31 December 2002 £'000
Ordinary dividends on equity shares	**2,245**	1,970	6,284

The interim ordinary dividend of 3.45p per share (2002: 3.3p) will be paid on 31 October 2003 to shareholders on the register at 3 October 2003.

6 Earnings per share
Earnings per share is calculated as follows:

	2003 Basic £'000	2003 Diluted £'000	2002 Basic £'000	2002 Diluted £'000
Profit after tax and minority interests (earnings)	**5,098**	**5,098**	6,063	6,063
Earnings before exceptional items and amortisation of intangibles	**7,537**	**7,537**	7,630	7,630

	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average of ordinary shares in issue	**64,807,347**	**64,807,347**	59,456,908	59,456,908
Weighted average of ordinary shares under option	**–**	**1,079,359**	–	734,550
Weighted average of own shares held	**–**	**195,044**	–	242,596
Number of shares assumed issued (at fair value)	**–**	**(1,160,877)**	–	(544,322)
Adjusted weighted average of ordinary shares in issue	**64,807,347**	**64,920,873**	59,456,908	59,889,732
Earnings per share	**7.9p**	**7.9p**	10.2p	10.1p
Adjusted earnings per share *	**11.6p**	**11.6p**	12.8p	12.7p

* Adjusted earnings per share is calculated before exceptional items and amortisation of intangibles.

7 Reconciliation of movements in shareholders' funds

	As at 30 June 2003 £'000	As at 30 June 2002 £'000	As at 31 December 2002 £'000
Profit for the period	**5,098**	6,063	16,413
Dividends	**(2,245)**	(1,970)	(6,284)
Exchange differences	**1,083**	311	(107)
Issue of new shares*	**90**	70	13,621
Net addition to shareholders' funds	**4,026**	4,474	23,643
Shareholders' funds at start of period	**95,914**	72,271	72,271
Shareholders' funds at end of period	**99,940**	76,745	95,914

* Shares include share premium

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