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Chairman's statement

Financial Overview

In my Chairman's Statement dated 11 March 2004, I said that our current focus was: "to consolidate and strengthen our existing businesses, returning Makers to profitability and improving Suncoast's margins during the course of 2004." I am pleased to report that we have made real progress in addressing the issues which held back our 2003 results and the Group is now well positioned for the remainder of the year. Indeed, Suncoast improved its margins in the first half of the year and Makers, although reporting a loss in the period, saw an improvement in its underlying business in the second quarter, putting it on track to return to sustained profitability in the second half.

Group sales for the period were up 6% at £294.1m (2003: £278.7m) which, on a constant currency basis, represents an increase of 13%, reflecting good organic growth. Profit before tax, exceptional items and amortisation of intangibles was down 13% at £11.2m (2003: £12.8m). However, these results include an underlying loss of £0.8m at Makers (which compares to a £0.4m operating profit in the previous half year) and the net adverse impact from exchange rate fluctuations of £1.1m. As previously indicated, the results for the full year are likely to be more second-half weighted than in 2003, consistent with earlier years.

Earnings per share before exceptional items and amortisation of intangibles were down 21% at 9.2p (2003: 11.6p). The fact that earnings per share fell by a greater degree than profit before tax is due to an increase in the first half effective tax rate to 39% (before exceptional items and amortisation of intangibles), compared to 33% for the first half of 2003. The 2004 full year effective tax rate is expected to be very similar to last year's rate of 39% and, therefore, for the full year, earnings per share are expected to move in line with profit.

Operating cash flow was £6.3m, compared to last year's £9.9m. Working capital was slightly higher than at the same time last year, reflecting growth in turnover and raw material price increases at Suncoast. The period end net debt was £71.8m, which compares to £76.8m at the end of June 2003 and £60.7m at the end of December 2003. EBITDA interest cover remains comfortable at 10 times (2003: 11 times). In line with the usual seasonal trends, we expect net debt to fall by the year end.

Dividend

The Board has declared an interim dividend of 3.6p per share (2003: 3.45p), representing an increase of 4.3%. This will be paid on 1 November 2004 to shareholders on the register at 8 October 2004. This increase reflects our continued policy of reinvesting our cash flow in the continued growth of the Group, whilst maintaining a healthy dividend cover and seeking to reward shareholders with above inflation increases.

Operational Overview North America

Our North American operations overall had a strong first half. Sales and operating profit before amortisation of intangibles increased in dollar terms compared to last year's first half by 15% and 14% respectively. However, a weakening of the US dollar against sterling by 13% eliminated most of these increases when translated into sterling. The overall operating margin was 7%, the same as in the first half of last year.

In the first half of 2004 the very buoyant North American housing market showed no signs of weakening, public infrastructure remained robust and we saw early signs that the trough in commercial construction may have bottomed out.

Hayward Baker started the year somewhat slowly, although it made up some lost ground in the second quarter. The Western Region improved after its weak performance in the second half of last year, helped by a particularly good result from a soil mixing and ground improvement project for a new marina development in Los Angeles and by actions taken to strengthen the operational management and to cut the cost base.

Chairman's statement continued

Case had a good first half and work is now well underway on a prestigious contract for the expansion of the McCormick Place Convention Center in Chicago. McKinney also had a strong start to the year particularly in the South East. An encouraging result from the piling contract at Seneca Niagara Falls Casino, which Case and McKinney undertook in joint venture, is an indicator of the effective co-operation between these two businesses and reflects the success with which McKinney's integration into the Group is being managed.

As we reported in our preliminary results announcement in March 2004, Suncoast faced raw material cost increases of 30% last year, as a result of the tariffs on steel strand and other price pressures in the steel industry, which had the effect of eroding its margins. In the first quarter of 2004, Suncoast successfully implemented price increases which, together with significantly increased volumes and operating cost efficiencies, combined to restore margins.

The continued strength of the US housing market, from which Suncoast derives the majority of its business, together with these price increases, resulted in a significant increase in turnover in the first half. Continuing the strategy of expansion outside Suncoast's traditional market, revenues from outside Texas represented 37% of total sales, compared to 34% in the first half of last year and 27% in 2002. The recently opened office in Sacramento performed well in the first half and evidences the significant potential in California.

Whilst continued volatility in steel prices indicates that further selling price increases will be necessary in the second half, the longer-term growth opportunities for the business remain positive.

Continental Europe & Overseas

Faced with mixed market conditions, our Continental Europe & Overseas business reported another commendable performance in the first half. Sales of £87.9m (2003: £78.8m) were 12% ahead, whilst operating profit before amortisation of intangibles of £5.0m (2003: £5.4m), was slightly behind the previous year's good result.

Keller-Terra reported another strong performance, with our ground improvement techniques continuing to gain market share in Spain. Our operations in Austria, Italy and Poland all made good contributions in the first half. Further geographical expansion was made in the period with the opening of two new offices in Northern Italy and another in Poland. In January, we purchased the remaining 50% minority stake in LCM, our Swedish lime column subsidiary, so increasing our commitment to this new technology.

In Germany, where the construction industry continued in decline, we maintained our market share on reduced margins. However, at the end of the period, work commenced on a major jet grouting and compensation grouting contract for a new underground rail link in Cologne, which should help to support profitability in the second half. In Portugal, soft market conditions prompted action to be taken to reduce costs and £0.4m of redundancy costs has been included in these results.

In our Overseas businesses, the Far East performed satisfactorily, with another strong contribution from Malaysia, where grouting products now account for around half of sales volume. This business which, until recently, focused exclusively on ground improvement products, illustrates our success in introducing new products into existing territories. In the Middle East there was good productivity on the Dubai Palm Island contract, where 12 Vibro compaction units worked around the clock to meet the demanding project deadlines.

UK

As we announced in our trading statement issued on 24 June 2004, Makers' half-year performance was adversely affected by losses on a small number of old contracts in discontinued areas of the business, which were being run off. These have now been predominately completed and the underlying performance of the business improved in the second quarter. Volumes in the social housing business increased compared to the previous year as delayed work, originally scheduled for 2003, came through in the first half of 2004. The Board therefore expects Makers to return to sustained profitability in the second half.

Keller Ground Engineering contributed a half-year profit broadly in line with the previous year on lower volumes, reflecting the withdrawal from heavy piling activities mid-year in 2003.

Australia

The Australian businesses performed well in the period with an operating profit marginally ahead of last year on a higher sales volume. There was a more balanced performance from our two main subsidiaries, Franki and Vibropile, with both operations contributing proportionately to the result. Further progress was also made in developing the ground engineering subsidiary established last year.

Outlook

We go into the second half with a solid order book, representing around four months' sales. Based on this and our current trading, the Board anticipates that the Group's performance for the year as a whole will be in line with expectations.

Dr J M West

Chairman

23 August 2004

Consolidated profit and loss account

for the half year ended 30 June 2004

	Note	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
Turnover from continuing operations	3	294,124	278,730	567,505
Operating costs		(282,299)	(266,489)	(548,548)
Operating profit				
Before exceptional items and amortisation of intangibles	3	13,259	14,904	32,838
Exceptional items*		–	(748)	(10,444)
Amortisation of intangibles		(1,434)	(1,915)	(3,437)
Operating profit from continuing operations	3	11,825	12,241	18,957
Net interest payable		(2,034)	(2,071)	(4,151)
Profit on ordinary activities before taxation				
Before exceptional items and amortisation of intangibles		11,225	12,833	28,687
Exceptional items*		–	(748)	(10,444)
Amortisation of intangibles		(1,434)	(1,915)	(3,437)
Profit on ordinary activities before taxation		9,791	10,170	14,806
Tax on profit on ordinary activities		(4,378)	(4,292)	(11,211)
Tax on exceptional items		–	224	510
Taxation	4	(4,378)	(4,068)	(10,701)
Profit on ordinary activities after taxation		5,413	6,102	4,105
Equity minority interests		(890)	(1,004)	(1,846)
Profit for the period		4,523	5,098	2,259
Dividends proposed and paid	5	(2,353)	(2,245)	(6,768)
Retained profit/(loss) for the period		2,170	2,853	(4,509)
Earnings per share	6	7.0p	7.9p	3.5p
Adjusted earnings per share**	6	9.2p	11.6p	24.1p
Diluted earnings per share	6	6.9p	7.9p	3.5p
Dividend per share	5	3.6p	3.45p	10.4p

* The 2003 exceptional items comprise a £7,372,000 goodwill impairment charge and £3,072,000 of UK reorganisation costs.

** 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 2004

	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
Profit for the period	4,523	5,098	2,259
Currency translation differences on overseas investments	(1,991)	1,083	(136)
Total recognised gains and losses	2,532	6,181	2,123

Consolidated balance sheet

as at 30 June 2004

	Note	As at 30 June 2004 £000	As at 30 June 2003 £000	As at 31 December 2003 £000
Fixed assets				
Goodwill		57,868	66,256	56,759
Other intangible assets		233	287	287
Intangible assets		58,101	66,543	57,046
Tangible assets		79,298	83,633	82,169
		137,399	150,176	139,215
Current assets				
Stocks		21,850	17,434	16,885
Debtors		161,940	152,705	137,855
Cash at bank and in hand		10,436	12,340	21,511
		194,226	182,479	176,251
Creditors: amounts falling due within one year		(169,261)	(154,184)	(147,047)
Net current assets		24,965	28,295	29,204
Total assets less current liabilities		162,364	178,471	168,419
Creditors: amounts falling due after more than one year		(53,372)	(63,235)	(58,438)
Provisions for liabilities and charges		(12,027)	(10,392)	(12,358)
Net assets		96,965	104,844	97,623
Capital and reserves				
Called up share capital		6,535	6,507	6,507
Share capital to be issued		–	–	680
Share premium account		36,014	35,374	35,374
Capital redemption reserve		7,629	7,629	7,629
Profit and loss account		42,027	50,430	41,849
Equity shareholders' funds	7	92,205	99,940	92,039
Equity minority interests		4,760	4,904	5,584
		96,965	104,844	97,623

Consolidated cash flow statement

for the half year ended 30 June 2004

	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
Net cash inflow from operating activities	6,325	9,936	39,951
Returns on investment and servicing of finance	(3,918)	(2,378)	(4,953)
Taxation	(1,358)	(5,772)	(12,795)
Capital expenditure	(5,514)	(7,489)	(13,418)
Acquisitions and disposals	(2,835)	207	421
Equity dividends paid	(4,449)	(4,404)	(6,534)
Net cash (outflow)/inflow before use of liquid resources and financing	(11,749)	(9,900)	2,672
Management of liquid resources	1,290	369	885
Financing	8,776	(4,980)	(6,992)
Decrease in cash in period	(1,683)	(14,511)	(3,435)
Exchange differences on cash balances	(728)	570	1,026
Decrease in short term bank deposits	(1,369)	(258)	(753)
(Increase)/decrease in bank loans	(7,875)	3,676	7,603
Decrease in loan notes	341	1,451	1,774
Decrease in finance leases	148	244	1,116
(Increase)/decrease in net debt	(11,166)	(8,828)	7,331
Opening net debt	(60,664)	(67,995)	(67,995)
Closing net debt	(71,830)	(76,823)	(60,664)
Analysis of closing net debt			
Cash in hand	10,217	10,257	19,923
Bank overdrafts	(3,404)	(12,565)	(10,699)
Net cash/(overdraft)	6,813	(2,308)	9,224
Short term bank deposits	219	2,083	1,588
Bank loans	(73,819)	(69,871)	(65,944)
Loan notes	(3,188)	(3,852)	(3,529)
Finance leases	(1,855)	(2,875)	(2,003)
Closing net debt	(71,830)	(76,823)	(60,664)

Notes to the interim report

1 Basis of preparation

This interim report, which is unaudited, was approved by the board of directors on 20 August 2004 and has been prepared following the accounting policies set out in the Group's 2003 Annual Report and Accounts. The figures for the year to 31 December 2003 have been extracted from the 2003 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 2004	Half year to 30 June 2003	Year to 31 December 2003
Euro:	average for period	1.49	1.46	1.45
	period end	1.50	1.44	1.42
US dollar:	average for period	1.82	1.61	1.64
	period end	1.81	1.65	1.78
Australian dollar:	average for period	2.47	2.62	2.52
	period end	2.62	2.47	2.38

3 Segmental analysis

Turnover may be analysed as follows:

	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
United Kingdom	54,756	57,142	103,976
The Americas	133,121	130,571	270,447
Continental Europe and Overseas	87,905	78,783	165,204
Australia	18,342	12,234	27,878
	294,124	278,730	567,505

In the opinion of the directors the Group operates only one class of business and turnover by destination is not materially different from turnover by origin.

Operating profit may be analysed as follows:

	Operating profit before exceptional items and amortisation of intangibles			Operating profit		
	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
United Kingdom	(302)	930	538	(311)	(70)	(10,317)
The Americas	9,191	9,104	19,305	8,094	7,761	16,890
Continental Europe and Overseas	5,016	5,447	13,812	4,666	5,113	13,180
Australia	870	809	2,004	892	823	2,025
	14,775	16,290	35,659	13,341	13,627	21,778
Less: Unallocated central costs	(1,516)	(1,386)	(2,821)	(1,516)	(1,386)	(2,821)
	13,259	14,904	32,838	11,825	12,241	18,957

Notes to the interim report continued

4 Taxation

Taxation based on the profit on ordinary activities is:

	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
UK corporation tax at 30% (2003: 30%)	–	(861)	–
Overseas tax	4,378	4,929	10,701
	4,378	4,068	10,701

5 Dividends proposed and paid

	Half year to 30 June 2004 £000	Half year to 30 June 2003 £000	Year to 31 December 2003 £000
Ordinary dividends on equity shares	2,353	2,245	6,768

The interim ordinary dividend of 3.6p per share (2003: 3.45p) will be paid on 1 November 2004 to shareholders on the register at 8 October 2004.

6 Earnings per share

Earnings per share is calculated as follows:

	2004 Basic £000	2004 Diluted £000	2003 Basic £000	2003 Diluted £000
Profit after tax and minority interests (earnings)	4,523	4,523	5,098	5,098
Earnings before exceptional items and amortisation of intangibles	5,957	5,957	7,537	7,537

	No. of shares 000s	No. of shares 000s	No. of shares 000s	No. of shares 000s
Weighted average of ordinary shares in issue	64,980	64,980	64,807	64,807
Weighted average of ordinary shares under option	–	1,678	–	1,080
Weighted average of own shares held	–	93	–	195
Number of shares assumed issued (at fair value)	–	(1,654)	–	(1,161)
Adjusted weighted average of ordinary shares in issue	64,980	65,097	64,807	64,921
Earnings per share	7.0p	6.9p	7.9p	7.9p
Adjusted earnings per share*	9.2p	9.2p	11.6p	11.6p

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

7 Reconciliation of movements in shareholders' funds

	As at 30 June 2004 £000	As at 30 June 2003 £000	As at 31 December 2003 £000
Profit for the period	4,523	5,098	2,259
Dividends	(2,353)	(2,245)	(6,768)
Exchange differences net of taxation	(1,991)	1,083	(136)
Issue of new shares*	667	90	90
Share capital to be issued	(680)	–	680
Net addition to shareholders' funds	166	4,026	(3,875)
Shareholders' funds at start of period	92,039	95,914	95,914
Shareholders' funds at end of period	92,205	99,940	92,039

* Shares include share premium.

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