

**7 March 2003**

**Preliminary Results for the year ended 31 December 2002**

Keller Group plc (“Keller” or “the Group”), the global construction services group, is pleased to announce its preliminary results for the year ended 31 December 2002. Highlights include:

- **Sales break through £500m barrier**
- **Operating profit\* up 35% to £34.3m; margins\* up to 6.7% (2001: 6.0%)**
- **Profit before tax\* up 29% to £30.4m (2001: £23.6m)**
- **Earnings per share\* increased 27% to 32.7p (2001: 25.8p)**
- **Strong cash flow with EBITDA interest cover of 11 times**
- **Five acquisitions completed during the year**
- **2003 prospects enhanced by recent acquisitions**
- **Recommended total dividend up 8% at 9.9p (2001: 9.2p)**

*\* before goodwill amortisation of £3.1m*

**Commenting on the results, Tom Dobson, Keller’s Chief Executive said:**

“These excellent results demonstrate our ability to generate sustained organic growth, complemented by selective value-creating acquisitions. The consistency of performance across the Group, with significantly improved margins, reflects the strength of our business model and the ability of our management to adapt to changing market conditions.”

“I am pleased to be able to report that we go into 2003 with a total order book representing four months’ sales, which gives a strong platform for the year ahead.”

**Enquiries:**

<b>Keller Group plc</b>	<b>www.keller.co.uk</b>
Tom Dobson, Chief Executive	On the day: 020 7067 0700
Justin Atkinson, Chief Operating Officer and Finance Director	Thereafter: 020 8341 6424

**Weber Shandwick |  
Square Mile**

Reg Hoare/ Josh Royston 020 7067 0700

**A briefing for analysts will be held at 9.15 for 9.30am on Friday, 7 March 2003 at the offices of Weber Shandwick Square Mile, Fox Court, 14 Gray’s Inn Road, London, WC1X 8WS.**

## **Preliminary Announcement**

### **Chairman's Statement**

#### **Results**

I am pleased to report another outstanding set of results for the Group. The 2002 financial year saw Group sales at £511.0m up 21% (2001: £422.2m), with profit before tax and goodwill amortisation up 29% to £30.4m (2001: £23.6m). Of the profit increase roughly half was generated from organic growth and half from acquisitions completed during 2001 and 2002. Earnings per share before goodwill amortisation increased by 27% to 32.7p (2001: 25.8p). These excellent results demonstrate our ability to generate sustained organic growth, complemented by selective value-creating acquisitions.

The consistency of performance across the Group, with significantly improved margins, reflects the strength of our business model and the ability of our management to adapt to changing market conditions.

Within Foundation Services, the US had a record year, whilst Continental Europe & Overseas produced another excellent performance. The UK and Australian foundation businesses both returned results that were much improved on the previous year. Within Specialist Services, Makers started to see returns from its investment in systems and processes, whilst Suncoast had a satisfactory first full year of ownership by the Group.

#### **Acquisitions**

2002 was an active year for acquisitions reflecting good opportunities which became available to us and which were consistent with our strategy. In December 2002, in Foundation Services we acquired both a 51% interest in the new Spanish subsidiary, Keller-Terra, for £8.6m, and McKinney Drilling in the US for an initial consideration of £17.1m, together with the acquisition of Vibropile, announced at the half year, for £1.0m. In Specialist Services, we added Wannewetsch in Germany and Accrete in the UK for a combined investment of £6.8m. We are encouraged by both the strategic benefit and the initial performance of these businesses as part of the Keller Group and we have made good progress in terms of their integration. As the acquisitions of Keller-Terra and McKinney were not completed until the end of 2002, there is no contribution from them in these results.

#### **Financing**

We completed two share issues during the year: 3.0m new shares were issued on 9 December 2002 as consideration for our 51% share in Keller-Terra and on 20 December 2002 we raised approximately £5.1m through a placing of 2.2m shares to part finance the acquisition of McKinney. With EBITDA interest cover remaining strong at 11 times, the board is of the view that the Group continues to be efficiently, but conservatively, financed.

## **Dividends**

In light of this strong performance, the Board is recommending an increased final dividend of 6.6p per share (2001: 6.05p), bringing the total dividend for the year to 9.9p (2001: 9.2p), an increase of 7.6%. This increase is in line with our policy of reinvesting our strong cash flow in the continued growth of the Group, whilst at the same time maintaining a healthy dividend cover and seeking to reward shareholders with above inflation increases. We have achieved this aim for each year since flotation in 1994, returning compound annual dividend growth of 9.5%.

## **Board**

After twelve years with the Group, including three and a half years as finance director, Justin Atkinson (42) has been appointed chief operating officer with immediate effect. A search for a new finance director is already underway. Building on the management changes announced at the half year, Bob Rubright (51) and Rob Ewen (43), managing directors of Foundation Services and Specialist Services respectively, join the board with effect from today. The promotion of these three extremely capable individuals combines continuity with a fresh perspective and reinforces our management structure.

In January 2003, we welcomed Pedro Lopez Jimenez to the Board as a non-executive director. Amongst his external appointments, Mr Lopez Jimenez is chairman of Terratest Tecnicas Especiales S.A., a shareholder in Keller-Terra. With first-hand knowledge of the construction sectors in Europe and South America, his appointment brings valuable insight and extensive international experience to the board.

## **People**

In the last two years, we have increased Group turnover from £313m to £511m, much of which has come from organic growth. This has presented a considerable challenge to our management and staff. Delivering this growth in turnover, whilst increasing margins and maintaining a healthy cash flow, is a tribute to the skill and dedication of our employees. I would like to extend the Board's sincere thanks for their hard work in 2002, which has been at the heart of our success.

## **Strategy**

Our performance in 2002 continues our impressive track record, reflecting the consistency of our strategy to further consolidate our global leadership in Foundation Services and to strengthen and broaden our offering of technical services and products to the construction industry. In 2003, we will continue to invest wisely in our existing businesses to exploit fully the opportunities to grow their market share and extend their geographic presence. We will also continue to take advantage of selective acquisition opportunities where they arise and where they offer long term growth and value enhancement.

## **Outlook**

In closing, I am pleased to be able to report that we go into 2003, with a total order book representing four months' sales, which gives a strong platform for the year ahead. We see potential for continued growth in Europe, given our broad product range, leading market positions and sector mix. In the US, although weather has delayed some job starts, we continue to see strength in the infrastructure and housing sectors. Against this background, and with the benefit of a full year's contribution from McKinney and Keller-Terra, the present indications encourage us to believe that 2003 will be another good year for the Keller Group.

## **Operating Review**

2002 was another highly successful year for Keller, in which we significantly improved margins and continued our strong track record of growth. Whilst we faced difficult conditions in some of our traditional markets, the range and technical superiority of our products and the diversity of markets we serve once again held us in good stead.

## **Conditions in our major markets**

Despite the general economic uncertainty in the US, the construction market has remained resilient. Towards the end of 2002, activity slowed in the commercial sector, whilst housing and public infrastructure continued to be strong. The picture across Europe was mixed: Germany saw construction output fall for the eighth consecutive year and Poland and Switzerland both experienced a construction slowdown. France and Sweden remained robust, whilst Italy showed signs of growth. Housing and infrastructure were fairly strong in the UK, but the ground engineering sub-sector remained flat. Overseas, the Far East once again offered good opportunities, whilst the Middle East continued to be slow. In Australia, both the commercial and infrastructure sectors saw recovery from a post-Olympic slump.

## **Strategic developments**

Last year, we made further significant progress towards our strategic objective of developing our global leadership in our core foundations business, whilst expanding the range of specialist products and services we offer to the built environment. In Foundation Services, the acquisition of Vibropile consolidates our number one ranking in the Australian foundations sector; our 51% interest in Keller-Terra will enable us to penetrate the growing and attractive Spanish ground engineering market; whilst the acquisition of McKinney reinforces our position as the leading provider of foundation services in the US. In Specialist Services, we acquired an 84% interest in Wannenwetsch, the supplier of robotic hydrodemolition services for precision concrete removal, to complement the services already offered by Makers in the concrete refurbishment market. In addition, the acquisition of Accrete is enhancing the position of Makers Infrastructure as a major partnering contractor in the water sector. We are confident that we have the experience, skills and resources to

add value to these businesses and to manage their integration, as our past track record amply demonstrates.

## **Foundation Services**

The Foundation Services operations had another excellent year in 2002, with sales 4% ahead of last year at £361.4m (2001: £347.8m) and operating profit before amortisation of goodwill of £27.7m (2001: £23.6m), 17% better than the previous year's good performance. This result reflects improved margins from 6.8% to 7.7%, combined with continued good organic growth.

## **North America**

Hayward Baker achieved another good, balanced performance, with steady margin growth in the established business, complemented by the strong performance of recent acquisitions, further increasing Hayward Baker's market penetration. The business continued to extend its geographic presence through the opening of new branch offices in Boston and Houston.

Sales were once again dominated by small to medium sized jobs across the United States, for which Hayward Baker's highly developed, regional structure enables it to compete successfully and profitably. Risk management continues to be a priority and Hayward Baker continues to focus on projects with acceptable margins and levels of risk.

The successful \$23m Wickiup Dam remediation project, a superjet grouting and earthworks project for the US Bureau of Reclamation, was an exception to the normal job profile. This is the largest single jet-grouting project ever performed in the US, involving two rigs working two shifts a day from April through to October 2002, creating a total of over 200,000 cubic yards of Soilcrete within the dam. Other significant projects undertaken during the year included a groundwater control and excavation project using various grouting techniques for a new sewer tunnel in Los Angeles; and a soil mixing scheme to improve the stability of a site for three 310-foot diameter petroleum tanks in Louisiana.

Case Foundation and Case Atlantic had a record year, with both sales and operating profit significantly ahead of the previous year's very strong performance. Following its opening in January 2002, the new office in Phoenix performed well, continuing the geographic expansion of the Case operation. Amongst the noteworthy jobs undertaken during the year were the foundation system for the Hyatt Center in Chicago; the installation of caissons to support highway and railway bridges over the Tennessee River in Northern Kentucky; and construction of concrete diaphragm walls at the University of Chicago Graduate School. The largest single job in Case's 50-year history, the Cooper River Bridge in Charleston, South Carolina, began in 2002 and was 60% complete at the year end. The project is being performed by Case Atlantic and involves the construction of 10-foot diameter caissons to a maximum depth of 230 feet.

At the end of 2002, we completed our acquisition of McKinney, a leading provider of drilled shaft caissons across the Eastern US. This high-margin, well-established business operates principally in the civil (highways and bridges) and commercial sectors. Operating at the small to mid-diameter end of the caisson market, the McKinney products complement those offered by Case and, whilst McKinney will continue to be managed separately, there are expected to be some synergies between the two businesses.

### **Continental Europe & Overseas**

Our Continental Europe & Overseas business reported another excellent performance. Once again, the broad spread of markets we serve provided some insulation from the difficult economic conditions persisting in parts of Europe and the Middle East. In the face of keen competition, the continuous development of technologies such as Vibro and Soilcrete has been key to maintaining our market leading edge.

Against a general downturn in the German construction market of around 9% last year, our German operation saw a slight reduction in sales, but improved its margin significantly, thereby increasing its contribution. We saw an increase in sales in Austria, despite growing competition, and in France, after extending the range of products on offer and our geographic reach. In Sweden, we increased sales volume and margins, predominantly using the lime column technology of our LCM subsidiary which we continue to introduce to other territories. After a difficult start to the year, our operation in Poland saw a recovery in the second half, when it took on a significant amount of flood protection work. With a steady performance in the Czech Republic and Slovakia and an established presence in Croatia, we are well positioned to take advantage of the growth opportunities that are expected to result from an enlarged European Union.

Within the Overseas division, the Far East region delivered the lion's share of sales volume and profit. In Singapore, two large sand compaction contracts for land reclamation schemes progressed well. A good performance was delivered on the Ipoh-Rawang railway project, which marked the introduction of the LCM technology to Malaysia. Results for the Middle East region were in line with our expectations. Our geographic expansion continues with the establishment of a new branch in Morocco and subsidiaries in India and Algeria.

### **UK**

In line with the results for the half year, volumes in KGE, the UK foundation business, were some 6% down on the previous year, whilst margins improved, justifying our concentration on value-added, higher margin products.

The range of solutions KGE can provide is a key factor in winning work and last year, as anticipated, KGE stepped up its offering of mixed-product packages. An example of this was the solution for a brownfield site in

Feltham, Middlesex, being developed by a leading housebuilder. A combination of vibro stone columns, driven cast in-situ piles, continuous flight auger bored piles and dynamic compaction provided a cost-effective and technically efficient means of stabilising the ground and supporting the proposed structures. KGE's package offering has been enhanced by the development of soil reinforcing systems, which provide an alternative to concrete, steel or brickwork retaining walls, with a particular application in rail and highway improvement schemes.

Throughout 2002, KGE developed new partnering relationships with a number of general contractors and homebuilders, resulting in an increased proportion of repeat and negotiated work. Such a relationship led to Keller's involvement in the high profile Blackheath project, where compaction grouting was used to stabilise a road collapse on the main A2 route through Greenwich into central London.

The single biggest contract on which KGE was engaged during the year was CTRL 310, where it is installing large diameter rotary bored pile foundations to support structures on the second phase of the Channel Tunnel Rail Link.

## **Australia**

2002 saw a very strong performance from Franki Australia and an excellent result by our mid year acquisition, Vibropile. Franki Indonesia also performed particularly well, in the light of the continuing fragile economy and an almost total lack of foreign investment.

Major contracts in Australia during the year included the foundations for the prestigious 88-storey "Q1" Tower on the Gold Coast and the Asset Development Project for BHP-Billiton at Port Hedland in northern Western Australia, a particularly demanding design and construct package requiring very close co-operation with the client. Franki also successfully carried out jet-grouting to retain the basement boundaries on a refurbishment project in Manly, Sydney with extremely restricted access and used compaction grouting techniques for Port Waratah Coal Services to re-level a conveyor transfer house that had tilted at their Kooragang Terminal, near Newcastle.

The acquisition of Vibropile has strengthened Keller's position as the leading specialist foundation contractor in Australia, bringing expertise in hard rock rotary drilling, deep continuous flight auger and rotary displacement piles to complement our existing range of products.

## **Specialist Services**

The results for the Specialist Services operations include, for the first time, a full year for Suncoast. With sales of £149.6m and operating profit before amortisation of goodwill of £8.8m, Specialist Services now accounts for 29% of Group turnover and 26% of operating profit.

## **Makers**

Last year, Makers started to reap the benefits of the investment in core business systems, which characterised the previous year and created the platform for growth. The business is now clearly structured around its key markets - social housing, car parking and infrastructure - in which Makers has established a growing number of long-term partnering relationships.

In social housing, which accounts for around 50% of turnover, Makers worked with 21 out of 33 London Boroughs, together with a further 25 local authorities outside London. Makers was pleased to secure first time contracts with the London Boroughs of Lambeth and Islington and Mercian Housing Association. The successful track record with the City of Westminster, which has been at the vanguard of partnering arrangements for social housing refurbishment, has resulted in approaches from other authorities looking to adopt the Westminster model. Makers is hopeful of securing partner status with a number of these clients in 2003. During the year, the business moved into reactive maintenance services through its joint venture company, Makers Haywards Property Service (MHPS). Supported by a state of the art communication and job-processing system, MHPS had a pleasing first year, serving several housing "villages" within the City of Westminster.

Makers Parking completed the refurbishment works at Heathrow's Short Stay Car Park 1 and replaced support columns at Car Park 3 which had been unsettled by the tunnelling for the adjacent Heathrow Express railway line. In addition to working with BAA and other clients on deteriorated car park structures, Makers completed its first new build multi-storey car park during the year. The innovative and practical design of this steel-framed car park attracted significant interest and Makers is about to embark on a similar project for Norwich City Council.

Last year, Makers restructured its former civil engineering repair division into dedicated teams of industry specialists under the new name Makers Infrastructure. The infrastructure division works on capital refurbishment projects, either as a main contractor or as a specialist supply chain partner, to the highway authorities, the railway industry and utilities. Makers' position in the UK water market was strengthened through the acquisition of Accrete in August 2002. Accrete provides a wide range of maintenance, refurbishment and security services to the water and waste-water industry through framework agreements with Scottish Water, Yorkshire Water, South West Water and Vivendi.

## **Wannenwetsch**

During the year we increased our stake in Wannenwetsch to 84%, from our original 49% interest acquired in January 2002. Wannenwetsch returned an excellent margin on sales that were almost entirely domestically sourced in Germany. With a new management team in place, the business will now focus on growing its share of the repair and maintenance market, one of the

expanding segments of the construction market in Central Europe, and taking its technology into new territories.

## **Suncoast**

Suncoast produced a satisfactory result for the year, albeit at the lower end of our original expectations. The principal weakness was in high rise activity following 11 September, on which we reported at the half year and which continued into the second half. In addition, sales in the slab-on-grade market were affected in the last few months of the year by adverse weather in the Texas area.

With a strengthened management team and new control and information systems in place, Suncoast is now better placed to anticipate and mitigate the effects of such external factors on its business. The growth prospects of the business will be enhanced by further geographic diversification. To this end, new offices were established in Las Vegas, Sacramento, Atlanta and Denver, marking the start of a rollout of the business into new markets where competition is fragmented and significant opportunities exist for Suncoast to increase its market share. As the opening of new offices gathers momentum, Suncoast's heavy reliance on the Texas area, which accounted for some 73% of sales in 2002, will be reduced.

Improved management information is also enabling us to improve operational efficiency within Suncoast. Last year we reduced inventory levels by 13% through improved controls, whilst the investment in upgrading the production facility in Houston is expected to generate cost savings this year. In addition, the advantage which Suncoast has over its smaller competitors in terms of strand-buying is expected to strengthen as domestic strand prices increase.

## **Financial review**

### **Results**

The Group's operating profit before the amortisation of goodwill at £34.3m was 35% higher than in 2001. Some 5% or £1.4m of this increase arose as a result of profit earned on the acquisitions made during the year. In addition, the Suncoast business acquired in October 2001 contributed a full year's profit against a three-month contribution last year.

Group operating margins before goodwill amortisation increased to 6.7% from the 6.0% margin reported in 2001, reflecting the full year impact of the Suncoast business together with improved margins across all our major Foundation Services business units.

The average foreign currency exchange rates of the Euro and Australian dollar against Sterling each strengthened by around 1% year on year but the US dollar weakened by some 4% against Sterling. Cumulatively this had an adverse effect on operating profit before goodwill amortisation of £0.8m.

Stripping out the effects of acquisitions and currency, the like for like growth in operating profit before the amortisation of goodwill was 14% indicating that the Group has continued to deliver strong organic growth.

## **Acquisitions**

Several acquisitions were made in the year for a total investment (including costs) of £34.4m, of which £19.3m was in cash. In December, McKinney Drilling was acquired for an initial consideration of £17.1m funded by a placing of new shares and an extension to the Group's banking facilities. There is a deferred consideration payable in 2005 dependent on McKinney's results in the two years to December 2004. The directors' current estimate of such deferred consideration is £1.7m. Also in December, the Group created a new venture, Keller-Terra, with Terratest, one of Spain's leading ground engineers, with an investment of £8.6m, representing 51% of the new venture. This was satisfied by the issue of 3m new Keller shares to Terratest. In August, Keller Australia purchased Vibropile for a cash consideration of £1.0m and Makers UK purchased Accrete for an initial consideration of £3.2m with a deferred consideration which the directors currently estimate at £0.9m. A number of smaller investments were made during the year including the buy out of the remaining 15% minority interest in Keller Australia and an investment of 84% in Wannewetsch, a German concrete repair business. Total net debt assumed on all of these acquisitions was £0.8m with net goodwill arising of £8.7m.

## **Capital and reserves**

The net assets of the Group increased during the year by £26.8m to stand at £100.1m at 31 December 2002. The net goodwill carried on the balance sheet increased by £5.7m to £66.3m and taking into account other intangibles of £0.4m the tangible net assets were £33.4m at the year end, an increase of two and a half times the figure at the end of the prior year.

Of the increase in net assets, £13.6m net of expenses arose as a result of the two share issues during the year: 3,029,000 shares at 277p for the investment in Keller-Terra and 2,215,000 shares at 240p for the partial funding of McKinney. Retained earnings increased by £10.1m in the year and minority interests increased by £3.2m reflecting the new 49% minority in Keller-Terra and the new 16% minority in Wannewetsch, offset by the buy-out of the 15% minority in Keller Australia.

## **Group insurances**

In line with most other businesses in our industry the Group has faced significant rises in its insurance costs during the year.

As a result of this, and after taking advice from our insurance brokers and reviewing several available options, the Group set up a captive insurance company with effect from May 2002 to self insure a portion of the general third party insurance exposure. The provisions for reserves made by the captive

together with net cash balances retained by the captive are consolidated with these financial statements.

### **Accounting standards**

Although the full implementation of FRS17 on retirement benefits has been deferred indefinitely, under its transitional disclosures, the net deficit after deferred tax relief in the UK-based Keller Group Pension Scheme has increased to £4.6m. This increase has arisen not only as a result of the recent deterioration in the equity markets but also as a result of a reduction in the discount rate used to value the liabilities. The scheme has been closed to new employees since 1999 and all new contributions into the scheme are going into fixed interest securities, with the split between equities and bonds being 60% to 40% at the year end. Contributions into the scheme have been increased. In addition to this defined benefit scheme the Group retains funds within the business to provide for retirement obligations for the German and Austrian employees. Although these retirement obligations are not fully funded the respective assets and liabilities are included within debtors and creditors on the Group balance sheet. All other pension provisions in the Group are of a defined contribution nature.

UITF Abstract 34 on pre contract costs which was issued in May 2002 has had no adverse impact on the Group. In general the Group's contracts are of a relatively short-term nature and the Group has always had a policy of expensing all bid related costs as they are incurred.

### **Taxation**

The Group's effective tax rate for the year at 39% is the same as that of the prior year. While this is significantly higher than the standard UK corporation tax rate of 30% it is a direct result of more than 60% of the Group's taxable profit arising in the US where the effective federal and state tax rate is nearly 40% and less than 5% of taxable profit arising in the UK .

### **Cash flow and net debt**

The operating cash flow of the Group at £43.2m represents 126% of the operating profit before goodwill amortisation in the year compared to £32.2m and 127% respectively for the prior year. Cash conversion is one of the great strengths of this Group and is something that all of our key employees work hard to achieve. Working capital controls have remained good with an inflow from working capital of £0.5m in the year, despite sales increases of 21%. However, net capital expenditure has increased over the prior year and at £12.7m, of which £1.8m was spent on land and buildings, it was one and a half times the depreciation charge.

Although net debt levels at the year end increased to £68.0m from £63.2m the previous year, the gearing level reduced from 86% to 68%. The majority of the Group's debt is denominated in US dollars reflecting its profit and asset profile.

The net interest charge in the year of £3.9m more than doubled compared to the previous year reflecting the higher debt levels taken on since the acquisition of Suncoast in October 2001. The Group increased its banking facilities in December 2002 to help fund the McKinney acquisition, when the revolving credit facility was increased from £40m to £53m and a new four year term loan of \$18m was negotiated. Around 60% of the Group's net debt is subject to floating interest rates with 40% subject to fixed rates until September 2004.

The Group has sufficient headroom in its banking facilities and its banking covenants to give it flexibility in funding its existing operations and future strategy. The Group's EBITDA interest cover for 2002 was 11.1 times (2001: full year pro forma of 7.8 times), well within its banking covenant.

### **Earnings and dividends**

After a minority interest charge of £0.2m, slightly below the prior year, and an increase in the weighted average number of shares in issue during the year of 3,109,000 reflecting the placing of shares which was made in December 2001, earnings per share for the year were 27.5p, an increase of 17% on 2001 reflecting an increase in the goodwill charge from £1.3m to £3.1m in 2002. Earnings per share before goodwill amortisation of 32.7p were 27% ahead of the prior year.

Following the recommendation of a final dividend of 6.6p, the total dividend for the year of 9.9p, an increase of 8% on 2001, is covered 2.6 times by earnings and 3.1 times by earnings before goodwill amortisation.