



Chairman's statement

Introduction

Keller Group has returned to its impressive track record of growth with an excellent set of results for the six months to 30 June 2001. These results reflect a very strong performance in North America where our business has not experienced any slowdown, combined with a good performance in Europe and a return to profitability in Australia.

Results

For the six months to 30 June 2001, operating profit before the amortisation of goodwill at £9.0m (2000: £6.5m) was 38% ahead of last year on sales up 29% at £189.2m (2000: £147.1m). Profit before tax increased 30% to £8.2m (2000: £6.3m). The Group has maintained its progressive dividend policy and the directors have declared an interim dividend of 3.15p (2000: 2.85p), which represents an increase of 11% over last year. This will be paid on 31 October 2001 to shareholders on the register at the close of business on 5 October 2001. Earnings per share before the amortisation of goodwill increased to 9.3p (2000: 7.3p) with a healthy dividend cover of almost three times. Gearing increased to 24% (2000: 11%), reflecting the acquisitions made in the latter half of 2000 and the increased activity levels in the first half, while interest cover was nineteen times.

Market leadership

We are an international market leader in Ground Engineering services to the construction industry. In accordance with our stated strategic objective of strengthening global leadership in the core foundations market, we completed four bolt-on acquisitions at a total cost of £9.0m in this sector last year, the benefits of which have helped fuel our growth during the first half of 2001. Our track record of successful acquisitions together with the continuing organic development of our existing businesses, enable us to continue to widen our range of specialised services to the construction and property sectors, working in partnership with our customers.

In Continental Europe we have continued to grow organically, particularly in France where we are now one of the leading foundation services companies. Poland is becoming more significant and we are now well established at the forefront in this growing geotechnical market. In 2000, we acquired a Swiss business, and as envisaged at the time of the acquisition, we are now making good progress towards securing future work on tunnelling projects in the Alps. We are already seeing benefits from the investment in LCM which brings lime column technology to the Group. A recent order for a substantial contract in the UK and the expected award of work in Malaysia, both of which are incremental to the core LCM markets in Scandinavia, are indicative of the potential of this business.

In North America our strengthened regional presence not only allows us to win work at both regional and national level but also gives us a unique position in the US marketplace. Close relationships are maintained with our customers who benefit at all levels from access to our innovative technologies. We will continue to seek opportunities to add to our regional presence whether by organic growth or through further selective regional acquisitions.

Through our Makers and AMS businesses we have a strong position in the UK refurbishment market. We have seen continued growth in our non-Ground Engineering services through promotion of close relationships and partnerships with boroughs in London and the Midlands, and with key clients such as BAA.

The Americas

Results in North America recovered very strongly from the slowdown we experienced last year with sales in the period up 71% to £81.2m (2000: £47.5m) and operating profit before goodwill amortisation ahead by 88% to £6.0m (2000: £3.2m). Both Case Foundation and Hayward Baker saw increases in sales and operating profit. These excellent results

benefited from strong activity carried over from the closing months of last year and the acquisitions completed in the second half of 2000, in addition to very good operating conditions in our segments of the US market.

All regions in Hayward Baker were on or ahead of budget with the Central and Western regions showing particularly strong results. In the Western region, two contracts for the densification of dredged spoil for a land reclamation project at the Port of Los Angeles made significant contributions to sales revenue, while the Central region completed a large lime injection contract for the stabilisation of a river embankment in Arkansas. Work is also underway on a jet grout contract for the extension of the American Airlines facilities at JFK Airport in New York, and the Northern Region is also currently carrying out grouting work at the Fort Point Channel crossing on the Central Artery project in Boston. Both of last year's acquisitions are performing well on a variety of small to medium sized contracts whilst our Tampa branch is flourishing in the Florida market.

Case Foundation also performed very well in the first half with the Western and Piling Divisions and Case Atlantic returning particularly good results both in revenues and gross margins. Major contracts undertaken included the completion of foundation work to bridges over the Mississippi in Pascagula and Missouri while work has just commenced on a road bridge in Charleston, South Carolina. Large diameter bored piles were completed on the Millennium building project in downtown Chicago while the Piling Division finalised work on a new bus terminal, also in Chicago. The Eastern Division returned excellent gross margins with good contracts in Connecticut and New Jersey for rail and bridge projects.

Continental Europe and Overseas

Taking into account the difficult economic background in some of these markets, Keller performed extremely well in Continental Europe

and Overseas, and contributed 28% of Group sales and 28% of Group operating profit. Sales for the six months were slightly ahead of last year at £52.1m (2000: £47.2m) while operating profit before goodwill amortisation but after a loss on disposal of £0.3m on our Hammers business, fell marginally to £2.5m (2000: £2.7m).

Although market conditions in Germany remain difficult we have benefited from last year's restructuring and, with improved margins, operating profit in Germany has strengthened. This has been offset by weaker performances in Portugal where the wet spring affected sales and in Austria where sales were also weak during the first quarter, however, we are now seeing signs of improvement in both countries. In both France and Poland we were ahead of expectations with strong performances from our operations which continue to show good organic growth and offer further potential for the future.

Major contracts during the year included completion of the piling for Expo 2002 site in Switzerland and a major soil investigation project in Bremerhaven, Germany, for the development of additional harbour facilities. In Poland, we carried out grouting works for the rehabilitation of a dam near Krakow, whilst in France, we utilised our vibro stone column system for ground improvement at Nice airport. The vibro system was also used in Spain for a project in Barcelona.

Outside Europe our business was stable with a good performance from our operations in the Far East particularly Malaysia and Singapore. Important contracts undertaken included a vibro stone column job for a new chemical plant in Taiwan, work on a new port facility at Jurong in Singapore, and the stabilisation of soil beneath the realignment of a railway line in Malaysia.

United Kingdom

In the UK, sales for the six month period were some 6% ahead of last year at £48.1m (2000: £45.4m) with operating profit before goodwill amortisation falling slightly behind last year at £1.2m (2000: £1.3m). All of the shortfall in profit can be attributed to the Ground Engineering business where the very wet weather, combined with delayed contract starts as a result of the foot and mouth outbreak, led to a drop of 9% in sales. The situation improved in June and the Ground Engineering business enters the second half of the year with a healthy order book.

Major contributions to the first half result included a compaction and void filling grouting job in Reading where sinkhole activity had threatened to cause severe settlement to local authority housing units. In ground improvement we were awarded a large vibro concrete column job related to the Channel Tunnel Rail Link project, and together with a wide variety of other contracts where our strong relationships with some of the major UK housebuilders are important, produced a good performance from the business. At the end of the period we were awarded a slurry cut-off wall for DEFRA in Cumbria and this work will be carried out during August and September.

Makers results benefited from the inclusion of AMS for the full period and showed continued growth, with sales and operating profit growing by some 20% over the same period last year. The refurbishment market in which Makers operates remains strong with good opportunities for work in major metropolitan areas where local borough councils continue to upgrade their housing stock. Two such projects which have contributed to the first half result are in the London area, one for the Borough of Waltham Forest where the refurbishment of two tower blocks is nearing completion, and the other for the Borough of Camden where we have been working on both the Saint Silas and Maitland Park estates. We continue to specialise in the repair of car parks and our partnering agreement with BAA has led to further work at both Heathrow and Gatwick airports.

Australia

The restructuring carried out last year has resulted in a more focused approach to the market and a reduced cost base. Sales increased to £7.7m (2000: £7.0m) and an operating profit of £0.2m (2000: £0.1m) was achieved. In addition to the steps we have taken, the market is showing signs of recovery with the number of opportunities growing. The Southern region has produced the best performance so far this year with only the Northern region falling below budget. Recent strong order intake offers encouragement for a much improved result for the full year

Prospects and strategy

With order books at the end of June strong and with a record order intake totalling £65m in July, we anticipate a good third quarter. With the strength of our US performance continuing and an anticipated improvement in our UK results, allied to a stable performance in Europe, we believe that the prospects for the full year are good.

The strength of our order book, which now stands at around £150m, is further evidence that our strategy of maintaining global leadership in the core foundation business is successful. Together with expansion of our range of specialist services, we believe our strategy will provide sustainable increases in value for our shareholders.

Dr J M West Chairman
28 August 2001

Consolidated profit and loss account

for the half year ended 30 June 2001

	Note	Half year to 30 June 2001 £'000	Restated half year to 30 June 2000 £'000	Restated year to 31 December 2000 £'000
Turnover from continuing operations	3	189,204	147,102	312,954
Operating costs		(180,525)	(140,634)	(296,747)
Operating profit before restructuring costs and amortisation of goodwill		8,977	6,511	17,706
Restructuring costs		–	–	(1,177)
Amortisation of goodwill		(298)	(43)	(322)
Operating profit from continuing operations	3	8,679	6,468	16,207
Net interest payable		(464)	(194)	(760)
Profit on ordinary activities before taxation		8,215	6,274	15,447
Taxation	4	(3,168)	(2,264)	(5,791)
Profit on ordinary activities after taxation		5,047	4,010	9,656
Equity minority interests		(92)	80	140
Profit for the period		4,955	4,090	9,796
Dividends proposed and paid	5	(1,790)	(1,619)	(4,829)
Retained profit for the period		3,165	2,471	4,967
Earnings per share	6	8.8p	7.2p	17.3p
Earnings per share before amortisation of goodwill		9.3p	7.3p	17.9p
Diluted earnings per share	6	8.7p	7.2p	17.2p
Diluted earnings per share before amortisation of goodwill		9.2p	7.3p	17.8p
Dividend per share	5	3.15p	2.85p	8.5p

Consolidated statement of total recognised gains and losses

for the half year ended 30 June 2001

		Half year to 30 June 2001 £'000	Restated half year to 30 June 2000 £'000	Restated year to 31 December 2000 £'000
Profit for the period		4,955	4,090	9,796
Currency translation differences on overseas investments		1,010	1,778	1,617
Tax effect of currency translation differences		–	(46)	39
Total recognised gains and losses		5,965	5,822	11,452

Consolidated balance sheet

as at 30 June 2001

	As at 30 June 2001 £'000	Restated As at 30 June 2000 £'000	Restated as at 31 December 2000 £'000
Note			
Fixed assets			
Positive goodwill	12,160	7,804	12,510
Negative goodwill	(157)	(262)	(209)
	12,003	7,542	12,301
Other intangible assets	417	295	395
Intangible assets	12,420	7,837	12,696
Tangible assets	52,625	48,553	50,788
	65,045	56,390	63,484
Current assets			
Stocks	6,541	6,312	7,026
Debtors	105,900	83,211	91,111
Cash at bank and in hand	8,720	15,065	13,568
	121,161	104,588	111,705
Creditors: amounts falling due within one year	(103,530)	(77,871)	(92,740)
Net current assets	17,631	26,717	18,965
Total assets less current liabilities	82,676	83,107	82,449
Creditors: amounts falling due after more than one year	(14,718)	(20,997)	(17,242)
Provisions for liabilities and charges	(6,081)	(6,998)	(7,579)
Net assets	61,877	55,112	57,628
Capital and reserves			
Called up share capital	5,683	5,681	5,681
Share premium account	14,558	14,545	14,545
Capital redemption reserve	7,629	7,629	7,629
Profit and loss account	33,236	26,641	29,061
Equity shareholders' funds	7 61,106	54,496	56,916
Equity minority interests	771	616	712
	61,877	55,112	57,628

Consolidated cash flow statement

for the half year ended 30 June 2001

	Half year to 30 June 2001 £'000	Half year to 30 June 2000 £'000	Year to 31 December 2000 £'000
Net cash inflow from operating activities	7,788	7,079	19,558
Returns on investment and servicing of finance	(536)	(475)	(998)
Taxation	(3,392)	(2,101)	(5,835)
Capital expenditure	(4,914)	(5,155)	(8,858)
Acquisitions and disposals	(548)	(3,108)	(8,787)
Equity dividends paid	(3,210)	(2,954)	(4,571)
Net cash (outflow) before use of liquid resources and financing	(4,812)	(6,714)	(9,491)
Management of liquid resources	2,176	2,360	2,978
Financing	(2,230)	4,534	5,391
(Decrease)/increase in cash in the period	(4,866)	180	(1,122)
Exchange differences on cash balances	10	170	146
Decrease in short term bank deposits	(2,182)	(2,390)	(2,978)
Decrease/(increase) in bank loans	1,670	(5,412)	(7,187)
Decrease/(increase) in loan notes	57	(3,919)	(3,872)
Decrease in finance leases	82	45	138
Increase in net debt	(5,229)	(11,326)	(14,875)
Opening net (debt)/funds	(9,611)	5,264	5,264
Closing net debt	(14,840)	(6,062)	(9,611)
Analysis of closing net debt			
Cash in hand	7,798	11,383	10,464
Bank overdrafts	(2,991)	(384)	(801)
Net cash	4,807	10,999	9,663
Short term bank deposits	922	3,682	3,104
Bank loans	(11,936)	(11,831)	(13,606)
Loan notes	(7,011)	(7,115)	(7,068)
Finance leases	(1,622)	(1,797)	(1,704)
Closing net debt	(14,840)	(6,062)	(9,611)

Notes to the interim report

1. Basis of preparation

This interim report, which is unaudited, was approved by the board of directors on 28 August 2001 and has been prepared following the accounting policies set out in the Group's 2000 Annual Report and Accounts. The Group has implemented FRS19 – Deferred Tax which has given rise to a prior year adjustment, details of which are set out in note 8. The figures for the year to 31 December 2000 have been extracted from the 2000 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 2001	Half year to 30 June 2000	Year to 31 December 2000
Euro:	average for period	1.60	1.63	1.64
	period end	1.66	1.58	1.59
US Dollar:	average for period	1.44	1.57	1.52
	period end	1.41	1.51	1.49
Australian Dollar:	average for period	2.76	2.57	2.61
	period end	2.77	2.52	2.67

3. Geographical analysis

Turnover and operating profit may be analysed as follows:

	Half year to 30 June 2001 £'000	Half year to 30 June 2000 £'000	Year to 31 December 2000 £'000
Turnover from continuing operations			
United Kingdom	48,128	45,429	91,021
The Americas	81,187	47,512	110,063
Continental Europe and Overseas	52,159	47,163	97,689
Australia	7,730	6,998	14,181
	189,204	147,102	312,954

3. Geographical analysis continued

	Half year to 30 June 2001 £'000	Half year to 30 June 2000 £'000	Year to 31 December 2000 £'000
Operating profit from continuing operations			
United Kingdom	1,074	1,255	3,411
The Americas	5,848	3,118	9,692
Continental Europe and Overseas	2,426	2,709	4,886
Australia	230	68	(184)
Unallocated central costs	(899)	(682)	(1,598)
	8,679	6,468	16,207

4. Taxation

Taxation based on the profit on ordinary activities is:

	Half year to 30 June 2001 £'000	Restated Half year to 30 June 2000 £'000	Restated year to 31 December 2000 £'000
UK corporation tax at 30% (2000: 30%)	227	283	579
Overseas tax	4,570	1,691	4,988
Deferred tax	(1,685)	194	252
Under/(over) provisions in respect of prior periods	56	96	(28)
	3,168	2,264	5,791

5. Dividends proposed

	Half year to 30 June 2001 £'000	Half year to 30 June 2000 £'000	Year to 31 December 2000 £'000
Ordinary dividends on equity shares	1,790	1,619	4,829

The interim ordinary dividend of 3.15p per share (2000: 2.85p) will be paid on 31 October 2001.

6. Earnings per share

Earnings per share is calculated as follows:

	2001 Basic £'000	2001 Diluted £'000	Restated 2000 Basic £'000	Restated 2000 Diluted £'000
Profit after tax and minority interests (earnings)	4,955	4,955	4,090	4,090
Earnings before amortisation of goodwill	5,253	5,253	4,133	4,133
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average of ordinary shares in issue	56,499,561	56,499,561	56,561,720	56,561,720
Weighted average of ordinary shares under option	–	177,439	–	196,873
Weighted average of own shares held	–	318,000	–	236,407
Number of shares assumed issued (at fair value)	–	(89,906)	–	(86,631)
Adjusted weighted average of ordinary shares in issue	56,499,561	56,905,094	56,561,720	56,908,369
Earnings per share	8.8p	8.7p	7.2p	7.2p
Earnings per share before amortisation of goodwill	9.3p	9.2p	7.3p	7.3p

7. Reconciliation of movement in shareholders' funds

	As at 30 June 2001 £'000	Restated as at 30 June 2000 £'000	Restated as at 31 December 2000 £'000
Profit for the period	4,955	4,090	9,796
Dividends	(1,790)	(1,619)	(4,829)
Exchange differences net of taxation	1,010	1,732	1,656
Issue of new shares*	15	41	41
Net addition to shareholders' funds	4,190	4,244	6,664
Shareholders' funds at start of period:			
As previously reported	57,997	51,044	51,044
Prior year adjustment (see note 8)	(1,081)	(792)	(792)
As restated	56,916	50,252	50,252
Shareholders' funds at end of period	61,106	54,496	56,916

*Shares include share premium

8. Prior year adjustment

The Group has implemented FRS19 – Deferred Tax. The change requires provision for taxation in respect of all timing differences. This represents a change in accounting policy and therefore results in a prior year adjustment. The charge to reserves brought forward at 31 December 2000 amounted to £1,081,000 (31 December 1999: £792,000). The comparatives for the six months to 30 June 2000 and the year to 31 December 2000 have been restated in accordance with the new accounting policy.

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