Keller Group plc

Interim Report 2002
Global Construction Services

Chairman's statement

Financial overview

I am pleased to report another excellent set of results for the first half of 2002, with operating margins up from 4.7% in 2001 to 5.5%. Group sales were up 32% at £250.5m (2001: £189.2m), with profit before tax and goodwill amortisation up 41% to £12.0m (2001: £8.5m). Earnings per share before goodwill amortisation increased to 12.8p (2001: 9.3p), representing growth of 38%.

Operating cash flow at £18.3m (2001: £7.8m) was well in excess of operating profit and reflects good management of working capital. The Group's EBITDA net interest cover remained comfortable at almost 10 times on a pro forma, rolling 12-month basis.

Dividend

In light of this strong performance, the directors have declared an interim dividend of 3.3p per share (2001: 3.15p), representing an increase of 5%. This will be paid on 31 October 2002 to shareholders on the register at 4 October 2002. This increase is in line with our policy of reinvesting our strong cash flow into 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.

Management changes

Managing the next chapter of our growth, which we shall drive both organically and through acquisition, will require dedicated leadership. In recognition of this, Bob Rubright, who has been President of our North American foundations operations since 1995, will now head all of our highly successful international Foundation Services businesses. In addition, we have recruited Rob Ewen to lead the next stage of development of our Specialist Services businesses, which now account for 30% of our turnover and which continue to gain momentum. Refocusing the Group around these two distinct profit streams, led by extremely capable individuals, will enhance our ability to focus on strengthening our global leadership in Foundation Services while expanding our range of Specialist Services.

Foundation Services

The results of Foundation Services were excellent, with sales of £173.8m (2001: £162.2m) and operating profit before amortisation of goodwill of £10.6m (2001: £9.1m), respectively some 7% and 16% ahead of the previous year.

North America

The markets served by our North American foundations businesses have remained robust. Case Foundation, our large diameter caisson business based in Chicago, had a particularly strong first half with good performances from all divisions. Noteworthy jobs completed in the period included the foundations for a new convention centre at Grand Rapids, Michigan and caisson work for the Gallery Place development in Washington DC. In the south, Case Atlantic continued work on the Cooper River Bridge in Charleston, South Carolina. This good performance in Case contributed to an improvement in margins in our North American foundations businesses from 7.4% to 8.1%.

In common with prior periods, Hayward Baker's sales were characterised by a large volume of small to medium sized jobs across the United States. However, sales also included work on a $23m jet grouting project at Wickiup Dam in Oregon, which is due to complete late this year, some six months ahead of schedule. The contribution of those businesses acquired by Hayward Baker over the past two years was particularly encouraging and demonstrates the success of its business model.

Continental Europe and Overseas

Our Continental Europe and Overseas business had a very good first half with sales some 23% ahead of the previous year, while margins improved slightly to 5.0%.

Despite the continuing slow down in the German construction industry, our operation in Germany further improved its share of the market with sales growing by 7% and margins holding steady. This good result was underpinned by strong performance in our niche markets of soilfrac, vibro systems and compaction grouting. For example, the latter system was chosen for a remedial contract at the site of a new major retail store in Dortmund, where uneven settlements of the floor slab necessitated ground treatment. Last year's strong performance in France continued through the first half of 2002, including a major foundation contract in the Rhone-Alp region for a new bottled water storage facility. Towards the end of the period, our Austrian business improved, while production in the Czech Republic and Slovakia remained steady. In line with its strategy of taking Keller technologies to new territories, the business acquired a 51% stake in Geotechnik, a regional ground treatment specialist contractor in Croatia, enabling Keller to increase its penetration in the Balkans.

Our Overseas business saw good growth, with the Far East operations benefiting from several large vibro contracts for land reclamation projects, including two sand compaction contracts in Singapore with a combined value of €27.8m, both of which are progressing well. We also saw some improvement in market conditions in the Middle East with good performances from our operations in Dubai and Saudi Arabia. In May, Keller's first stone column project in India got underway involving ground improvement work to reduce the risk of soil liquefaction in earthquake prone Gujarat.

UK
Market conditions in the UK foundations sector remained stable, with the housing sector continuing to be strong and the commercial and infrastructure sectors running at similar levels to last year.
While volumes were some 6% down on the same period last year, margins improved from 1.9% to 3.1%, reflecting our strategy of concentrating on our higher margin products. Major contracts undertaken during the period included a ground improvement project for a new power station at Spalding in Lincolnshire and vibro stone columns for a new school in Dalkeith.
In May, we were awarded a £7.2m large diameter piling contract for a section of the Channel Tunnel Rail Link, a project which will gain momentum during the second half of 2002. In the housing sector we have provided package schemes to some of the UK's leading house builders, where we have combined systems such as piling, vibro and earth retention to offer economic solutions to difficult foundation problems. We welcome the news of increased government spending on health, education, housing and infrastructure, which should inject some additional impetus into the construction market.

Australia
Following a sluggish start to the year, activity improved through the period. The largest contract carried out in the first six months was the Victoria Towers project in Melbourne, where Franki drove pre-cast, concrete piles to support the structure. Work was also completed on the Eureka project in Melbourne, where we worked in joint venture with Vibropile to complete this difficult bored pile contract. Whilst small, our Indonesian subsidiary performed very well during the period, undertaking a variety of small jobs to support mainly commercial developments.

Since the end of the half year, we have bought out the local management's 15% minority interest in our Australian subsidiary, Keller Australia, for AU$0.9m (£0.3m). This gives Keller the full benefit of future value creation. In addition, we have acquired the assets of Vibro-pile (Aust) Pty Limited ("Vibropile"), the Melbourne-based foundation drilling contractor, for a cash consideration of AU$5.3m (£1.9m). This acquisition will consolidate our position as foundations market leader in Australia and its products will complement the excellent range of services already offered by our Australian business. Vibropile has been a much respected competitor with whom we have enjoyed good co-operation over a number of years and we are delighted that their drilling skills and expertise will now be available within Keller.

Specialist Services
Specialist Services returned a good set of results, with sales of £76.7m and an operating profit before amortisation of goodwill of £4.4m. A full first half contribution from Suncoast is included in the results for the first time.

Suncoast
The integration of Suncoast, which we acquired on 1 October 2001, is progressing well. As planned, we strengthened the management team and installed new processes and procedures to ensure that the business infrastructure has the capacity and strength to support its future growth.

The business adapted well to these changes and we are encouraged by Suncoast's performance in the first half. Sales in the slab on grade market remained strong, buoyed by the residential market, which held up well during the first half. This is particularly true of the Southern States from which Suncoast derives the vast majority of its sales. Progress was also achieved in entering new markets such as Arizona and California, with the Northern California market, in particular, presenting opportunities for growth. As expected, there was some weakness in high rise activity during the period. This is being addressed by an additional sales drive in Atlanta, Denver and Chicago, where we are using existing Group resources to nurture new opportunities. Margins achieved were in line with our expectations at the time of the acquisition and, with new control systems, we see opportunities for improvement in the future.

Makers
After a year of consolidation for Makers in 2001, in which we strengthened the core business systems to create a firm platform for growth, the first half of 2002 started to show the fruits of that investment, with a 13% increase in turnover and an improvement in margins.

The strong performance was reflected across all Makers' business units, but was particularly marked in the social housing sector. The growing tendency for local authorities to embrace partnering agreements plays to Makers' strengths, having an established culture of teamwork and customer focus. The success of the current partnering arrangements with the City of Westminster and others, for social housing refurbishment, is expected to spawn significant growth opportunities as increasing numbers of local authorities adopt partnering practices. The move into reactive maintenance, through the Makers Haywards joint venture which was announced in February and began operations in June of this year, has got off to a good start.

We continue to foster our relationship with BAA for the repair of car parks and to see other partnership opportunities in this market. During the first half of this year we completed our first new build car park project at Amersham, where our experience in repair and maintenance was utilised to build an efficient car park design.

Since the period end, we have acquired Accrete Limited, a specialist concrete repair business providing a national service to the UK water industry, for an initial cash consideration of £3.0m and deferred consideration of up to £0.9m. The acquisition will enhance the position of the Makers utilities division as a major partnering contractor in the water sector.

Strategy

We now have a management structure that is aligned with our strategic objective: to further develop our global leadership in our core foundations business and expand the range of specialist products and services we offer to the built environment. To meet this objective, we shall continue to pursue organic growth in our Foundation Services businesses while taking advantage of acquisition opportunities when they arise and where they offer earnings enhancement and growth. In the Specialist Services sector, we shall continue to invest in the growth of Makers and Suncoast and, at the same time, continue to seek acquisition opportunities to broaden our offering of technical services and products.

Outlook

The order book at the end of July, on a like-for-like basis, was some 13% ahead of the previous year's exceptional level, demonstrating good organic growth. Tender levels remain strong. In light of our current trading and the opportunities facing the Group, we are confident that the results for the full year will be good.

Dr J M West Chairman
22 August 2002

Consolidated profit and loss account

for the half year ended 30 June 2002

	Note	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Turnover from continuing operations	3	**250,494**	189,204	422,248
Operating costs		**(238,235)**	(180,525)	(398,070)
Operating profit before amortisation of goodwill		**13,826**	8,977	25,429
Amortisation of goodwill		**(1,567)**	(298)	(1,251)
Operating profit from continuing operations	3	**12,259**	8,679	24,178
Net interest payable		**(1,822)**	(464)	(1,785)
Profit on ordinary activities before taxation		**10,437**	8,215	22,393
Taxation	4	**(4,118)**	(3,168)	(8,684)
Profit on ordinary activities after taxation		**6,319**	5,047	13,709
Equity minority interests		**(256)**	(92)	(342)
Profit for the period		**6,063**	4,955	13,367
Dividends proposed and paid	5	**(1,970)**	(1,790)	(5,401)
Retained profit for the period		**4,093**	3,165	7,966
Earnings per share	6	**10.2p**	8.8p	23.6p
Earnings per share before amortisation of goodwill		**12.8p**	9.3p	25.8p
Diluted earnings per share	6	**10.1p**	8.7p	23.4p
Diluted earnings per share before amortisation of goodwill		**12.7p**	9.2p	25.6p
Dividend per share	5	**3.3p**	3.15p	9.2p

Consolidated statement of total recognised gains and losses

for the half year ended 30 June 2002

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Profit for the period	**6,063**	4,955	13,367
Currency translation differences on overseas investments	**311**	1,010	(555)
Total recognised gains and losses	**6,374**	5,965	12,812

Consolidated balance sheet

as at 30 June 2002

	Note	As at 30 June 2002 £'000	As at 30 June 2001 £'000	As at 31 December 2001 £'000
Fixed assets				
Positive goodwill		**58,467**	12,160	60,752
Negative goodwill		**(53)**	(157)	(105)
		58,414	12,003	60,647
Other intangible assets		**337**	417	372
Intangible assets		**58,751**	12,420	61,019
Tangible assets		**61,626**	52,625	59,277
Investments		**1,379**	–	–
		121,756	65,045	120,296
Current assets				
Stocks		**12,141**	6,541	12,466
Debtors		**124,814**	105,900	120,318
Cash at bank and in hand		**7,875**	8,720	12,209
		144,830	121,161	144,993
Creditors: amounts falling due within one year		**(129,838)**	(103,530)	(129,143)
Net current assets		**14,992**	17,631	15,850
Total assets less current liabilities		**136,748**	82,676	136,146
Creditors: amounts falling due after more than one year		**(51,878)**	(14,718)	(56,825)
Provisions for liabilities and charges		**(6,814)**	(6,081)	(6,046)
Net assets		**78,056**	61,877	73,275
Capital and reserves				
Called up share capital		**5,974**	5,683	5,968
Share premium account		**22,266**	14,558	22,202
Capital redemption reserve		**7,629**	7,629	7,629
Profit and loss account		**40,876**	33,236	36,472
Equity shareholders' funds	7	**76,745**	61,106	72,271
Equity minority interests		**1,311**	771	1,004
		78,056	61,877	73,275

Consolidated cash flow statement

for the half year ended 30 June 2002

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Net cash inflow from operating activities	**18,331**	7,788	32,187
Returns on investment and servicing of finance	**(2,171)**	(536)	(3,301)
Taxation	**(5,817)**	(3,392)	(8,237)
Capital expenditure	**(6,319)**	(4,914)	(10,234)
Acquisitions and disposals	**(591)**	(548)	(67,330)
Equity dividends paid	**(3,611)**	(3,210)	(5,000)
Net cash (outflow) before use of liquid resources and financing	**(178)**	(4,812)	(61,915)
Management of liquid resources	**633**	2,176	947
Financing	**(6,641)**	(2,230)	52,181
(Decrease) in cash in the period	**(6,186)**	(4,866)	(8,787)
Exchange differences on cash balances	**–**	10	(30)
Decrease in short term bank deposits	**(691)**	(2,182)	(947)
Decrease/(increase) in bank loans	**6,043**	1,670	(43,427)
Decrease in loan notes	**2,776**	57	170
(Increase)/decrease in finance leases	**(169)**	82	(570)
Decrease/(increase) in net debt	**1,773**	(5,229)	(53,591)
Opening net debt	**(63,202)**	(9,611)	(9,611)
Closing net debt	**(61,429)**	(14,840)	(63,202)
Analysis of closing net debt			
Cash in hand	**6,460**	7,798	10,103
Bank overdrafts	**(11,768)**	(2,991)	(9,225)
Net (overdraft)/cash	**(5,308)**	4,807	878
Short term bank deposits	**1,415**	922	2,106
Bank loans	**(50,951)**	(11,936)	(56,994)
Loan notes	**(4,122)**	(7,011)	(6,898)
Finance leases	**(2,463)**	(1,622)	(2,294)
Closing net debt	**(61,429)**	(14,840)	(63,202)

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 2002 and has been prepared following the accounting policies set out in the Group's 2001 Annual Report and Accounts. The figures for the year to 31 December 2001 have been extracted from the 2001 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 2002	Half year to 30 June 2001	Year to 31 December 2001
Euro:	average for period	**1.61**	1.60	1.61
	period end	**1.55**	1.66	1.64
US Dollar:	average for period	**1.45**	1.44	1.44
	period end	**1.53**	1.41	1.45
Australian Dollar:	average for period	**2.70**	2.76	2.79
	period end	**2.72**	2.77	2.84

3. Segmental analysis

Turnover and operating profit may be analysed as follows:

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Turnover from continuing operations			
Class of business			
Foundations	**173,839**	162,174	347,826
Specialist services	**76,655**	27,030	74,422
	250,494	189,204	422,248
Geographical origin			
United Kingdom	**50,228**	48,128	100,130
The Americas	**127,505**	81,187	188,761
Continental Europe and Overseas	**64,014**	52,159	115,008
Australia	**8,747**	7,730	18,349
	250,494	189,204	422,248

3. Segmental analysis continued

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Operating profit from continuing operations			
Class of business			
Foundations	**10,412**	8,897	23,216
Specialist services	**3,021**	681	2,762
	13,433	9,578	25,978
Geographical origin			
United Kingdom	**1,627**	1,074	3,167
The Americas	**8,424**	5,848	16,344
Continental Europe and Overseas	**3,147**	2,426	5,820
Australia	**235**	230	647
	13,433	9,578	25,978
Unallocated central costs	**(1,174)**	(899)	(1,800)
	12,259	8,679	24,178

4. Taxation

Taxation based on the profit on ordinary activities is:

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
UK corporation tax at 30% (2001: 30%)	**87**	227	411
Overseas tax	**3,923**	4,570	9,286
Deferred tax	**85**	(1,685)	(1,049)
Under provisions in respect of prior periods	**23**	56	36
	4,118	3,168	8,684

5. Dividends proposed and paid

	Half year to 30 June 2002 £'000	Half year to 30 June 2001 £'000	Year to 31 December 2001 £'000
Ordinary dividends on equity shares	**1,970**	1,790	5,401

The interim ordinary dividend of 3.3p per share (2001: 3.15p) will be paid on 31 October 2002 to shareholders on the register at 4 October 2002.

6. Earnings per share

Earnings per share is calculated as follows:

	2002 Basic £'000	2002 Diluted £'000	2001 Basic £'000	2001 Diluted £'000
Profit after tax and minority interests (earnings)	6,063	6,063	4,955	4,955
Earnings before amortisation of goodwill	7,630	7,630	5,253	5,253
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average of ordinary shares in issue	59,456,908	59,456,908	56,499,561	56,499,561
Weighted average of ordinary shares under option	–	734,550	–	282,630
Weighted average of own shares held	–	242,596	–	318,000
Number of shares assumed issued (at fair value)	–	(544,322)	–	(210,857)
Adjusted weighted average of ordinary shares in issue	59,456,908	59,889,732	56,499,561	56,889,334
Earnings per share	10.2p	10.1p	8.8p	8.7p
Earnings per share before amortisation of goodwill	12.8p	12.7p	9.3p	9.2p

7. Reconciliation of movements in shareholders' funds

	As at 30 June 2002 £'000	As at 30 June 2001 £'000	As at 31 December 2001 £'000
Profit for the period	6,063	4,955	13,367
Dividends	(1,970)	(1,790)	(5,401)
Exchange differences	311	1,010	(555)
Issue of new shares*	70	15	7,944
Net addition to shareholders' funds	4,474	4,190	15,355
Shareholders' funds at start of period:			
As previously reported	72,271	57,997	57,997
Prior year adjustment (see note 8)	–	(1,081)	(1,081)
As restated	72,271	56,916	56,916
Shareholders' funds at end of period	76,745	61,106	72,271

*Shares include share premium

8. Prior year adjustment – deferred tax

The Group implemented FRS19 – Deferred Tax during 2001. The change required provision for taxation in respect of all timing differences. This represented a change in accounting policy and therefore resulted in a prior year adjustment. The charge to reserves brought forward at 31 December 2000 amounted to £1,081,000.

9. Post balance sheet events

Since the balance sheet date the Group has bought out the 15% minority interest in its Australian subsidiary, Keller Australia, for £0.3m. Keller Australia has purchased the assets of Vibro-pile (Aust) Pty Ltd for a cash consideration of £1.9m. Makers UK Ltd has purchased the issued share capital of Accrete Limited for an initial cash consideration of £3m and deferred consideration of up to £0.9m.

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