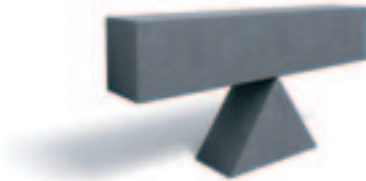


Keller Group plc  
Annual Report and Accounts 2004



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Keller, the international ground engineering specialist, is renowned for providing innovative and cost-effective solutions. Keller has unrivalled coverage in Europe, North America and Australia, where its services are used in infrastructure, commercial, industrial and residential projects.

Turnover (£m)	
2004	595.9
2003	567.5
2002	511.0
2001	422.2
2000	313.0

Turnover	
<b>£595.9m</b>	

Profit before tax (£m)*	
2004	29.6
2003	28.7
2002	30.4
2001	23.6
2000	16.9

Profit before tax*	
<b>£29.6m</b>	

Earnings per share (p)*	
2004	25.1
2003	24.1
2002	32.7
2001	25.8
2000	19.0

Earnings per share*	
<b>25.1p</b>	

\* before amortisation of intangibles and 2003 exceptionals

# Chairman's statement

## Dr Michael West

**In 2004 we met our immediate objectives of consolidating and strengthening our existing businesses, returning Makers to profitability and improving Suncoast's margins.**

### Results

The results for the 2004 financial year show a strong recovery, reflecting our success in implementing the strategy which I set out in my chairman's statement a year ago. I am pleased to report that Makers has put behind it the issues which held back performance in 2003, to report a small profit in 2004. Suncoast has seen a significant increase in volumes which, together with selling price increases and operating cost efficiencies, have combined to restore margins. Elsewhere, our specialist ground engineering businesses have given another robust performance overall.

Group sales rose to £595.9m (2003: £567.5m). On a constant currency basis, sales increased by 11%, representing strong organic growth across our international markets. Profit before tax, exceptional items and amortisation of intangibles was up 3% to £29.6m (2003: £28.7m). This result includes a net adverse impact from exchange rate fluctuations of £2.3m, mainly reflecting the weaker dollar. Earnings per share before exceptional items and the amortisation of intangibles increased by 4% to 25.1p (2003: 24.1p).

### Cash flow and net debt

Net cash inflow from operating activities was £33.6m (2003: £40.0m) and net debt at the end of the year was £60.0m (2003: £60.7m). Both reflect the higher working capital needed to service increased turnover, particularly in our Suncoast business. EBITDA interest cover remains strong at over 10 times.

**"I would like to thank all of our employees for the quality of work and high standards they have delivered day in, day out."**

**Dr Michael West**  
Chairman



## Financing

During the year the Group's debt was refinanced to reduce the cost of borrowing and diversify our sources of funding, as well as to increase our committed facilities to support the Group's continued growth plans. In October, \$100m of long-term debt was raised through a private placement with US institutions. In addition, in December, the Group negotiated a new £80m, five-year syndicated revolving credit facility.

## Dividends

The board is recommending an increased final dividend of 7.3p per share (2003: 6.95p). This brings the total dividend for the year to 10.9p (2003: 10.4p), an increase of 5%, which is covered 2.3 times by earnings per share before amortisation of intangibles. The final dividend will be paid on 28 June 2005 to shareholders on the register at 27 May 2005. This increase reflects our continuing policy of reinvesting our cash flow in the growth of the Group, whilst maintaining a healthy dividend cover and seeking to reward shareholders with above inflation increases.

## Board

As previously announced, Tom Dobson retired as chief executive and as a director at the end of March 2004. As planned, he was replaced by Justin Atkinson, who was previously chief operating officer, and before that, finance director.

## People

The success of our business depends on the delivery of quality solutions for our customers around the world. On behalf of the board, I would like to thank all of our employees for the quality of work and high standards they have delivered day in, day out in order that such success can be maintained. Their commitment to the further achievements of Keller will continue to be matched by the board's commitment to providing excellent job support, good reward and recognition, and opportunities for career growth.

## Strategy

In 2004 we met our immediate objectives of consolidating and strengthening our existing businesses, returning Makers to profitability and improving Suncoast's margins. Now our focus is on continuing the Group's long-term track record of growth within our core competence of specialist ground engineering. This will be achieved, as it has been successfully in the past, through a combination of organic growth, both in existing and new markets, and targeted acquisitions.

## Outlook

The good order intake in the final quarter of 2004, which was boosted by several large US contract wins, has continued into 2005. Our current order book represents over four months' sales, giving us a sound base from which to progress.

With our businesses well positioned to take advantage of new opportunities as they emerge, and no major changes anticipated in our markets, the board is confident that the Group will deliver further performance improvement and growth in 2005.

**Dr Michael West**  
Chairman  
4 March 2005



Keller-Terra undertakes ground improvement with stone columns for a combined cycle power plant in Murcia, Spain.



Hayward Baker installs vibrated concrete columns at the Corn Hill Landing Buildings, New York State, USA.



Case installs drilled shafts to support a bridge over the Tennessee River in Kentucky, USA.

## Keller today

Turnover

**£595.9m**  
**+5%**

Operating profit\*

**£33.8m**  
**+3%**

Keller is the international ground engineering specialist, providing all sectors of the construction industry with an extensive range of technically advanced and cost-effective solutions. Keller's techniques are used in major infrastructure renewal and industrial projects around the world.

Since its flotation in 1994, the Group has grown almost four-fold, by a combination of acquisition and organic growth. Today, Keller employs over 4,700 employees, operating across five continents.

[www.keller.co.uk](http://www.keller.co.uk)

## Our services

### Ground improvement

Ground improvement techniques are used to prepare the ground for new construction projects and to reduce the risk of liquefaction in areas of seismic activity.

### Specialty grouting

Specialty grouting strengthens target areas in the ground and controls ground water flow through rocks and soils by reducing their permeability.

### Piling

Piling involves the installation of structural elements to transfer foundation loads through weak soils to stronger underlying ground.

### Post-tension cable systems

Post-tensioning is used to reinforce concrete foundations and structural spans, enhancing their load-bearing capacity by applying a compressive force to the concrete, once set.

### Structural restoration

Social housing refurbishment, together with water and car park related concrete repair services.

## North America

Turnover

**£280.2m**  
**+4%**

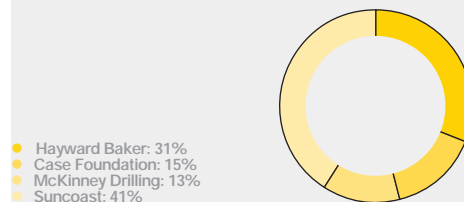
Operating profit\*

**£21.0m**  
**+9%**

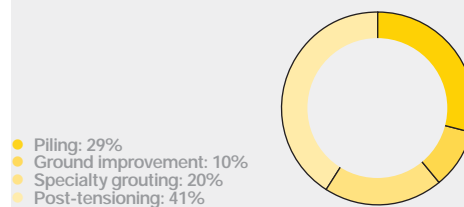


Hayward Baker undertakes soil mixing and vibro replacement works for a waterfront condominium development at Marina del Rey, Los Angeles, USA.

### Sales by business unit



### Sales by type of service



### Our brand names

#### Hayward Baker

[www.haywardbaker.com](http://www.haywardbaker.com)

#### Case Foundation

[www.casefoundation.com](http://www.casefoundation.com)

#### McKinney Drilling

[www.mckinneydrilling.com](http://www.mckinneydrilling.com)

#### Suncoast

[www.suncoast-pt.com](http://www.suncoast-pt.com)

\* before amortisation of intangibles and 2003 exceptionals

## United Kingdom

Turnover

**£108.3m**  
**+4%**

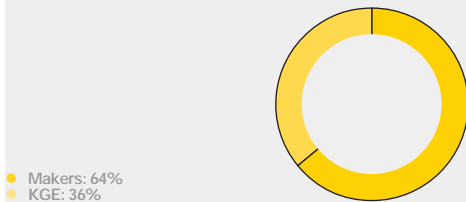
Operating profit\*

**£1.7m**  
**+240%**

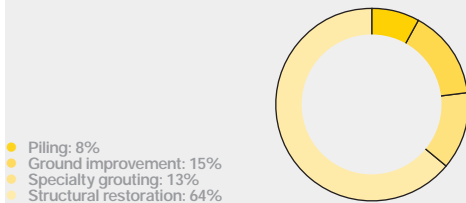


KGE performs vibration monitoring as part of the ground treatment works for the Cardiff Bay Sports Village development, Wales.

Sales by business unit



Sales by type of service



Our brand names

**Keller Ground Engineering**

[www.keller-ge.co.uk](http://www.keller-ge.co.uk)

**Makers**

[www.makers.co.uk](http://www.makers.co.uk)

## Continental Europe & Overseas

Turnover

**£175.0m**  
**+6%**

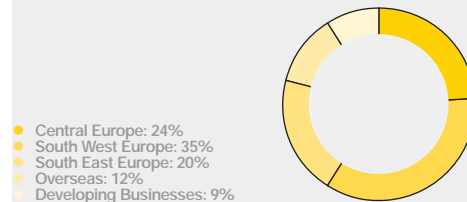
Operating profit\*

**£11.9m**  
**-14%**

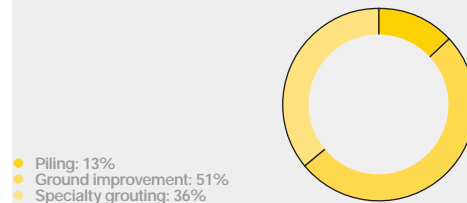


Keller Grundbau undertakes slope and excavation stabilisation works for the construction of a ring-road from Fachbach to Bad Ems, Germany.

Sales by business unit



Sales by type of service



Our brand names

**Keller**

[www.kellergrundbau.com](http://www.kellergrundbau.com)

**Keller-Terra**

[www.kellerterra.com](http://www.kellerterra.com)

**LCM**

[www.lcm.se](http://www.lcm.se)

**Wannenwetsch**

[www.wannenwetsch-hdw.de](http://www.wannenwetsch-hdw.de)

## Australia

Turnover

**£32.4m**  
**+16%**

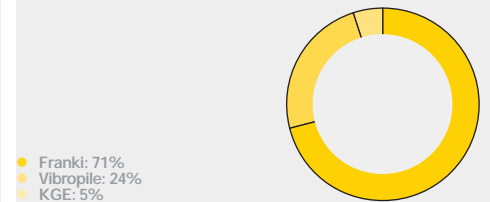
Operating profit\*

**£1.7m**  
**-15%**

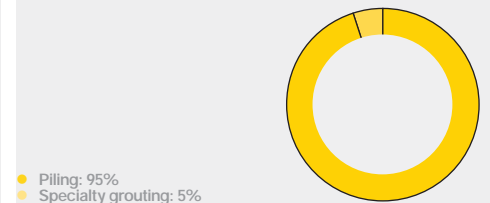


Franki works in a confined space to install bored piles for the Queen's Plaza development, Brisbane, Australia.

Sales by business unit



Sales by type of service



Our brand names

**Frankipile**

[www.frankipile.com.au](http://www.frankipile.com.au)

**Vibropile**

[www.vibropile.com.au](http://www.vibropile.com.au)



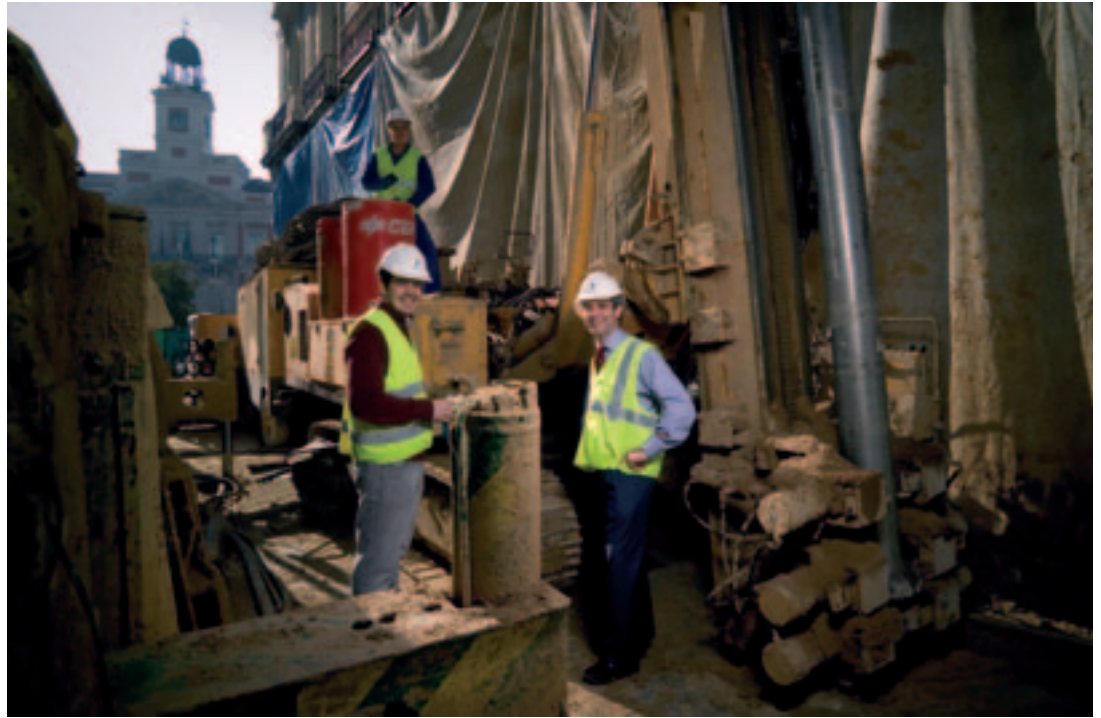
# Focused Specialist with a tight focus

**“The first two years of the Keller-Terra operation have been a success – we have seen our ground improvement techniques progressively gain market share and have increased our sales across all major product areas, whilst focusing on maintaining our margins.”**

**Julio Garcia Mina Cabredo**

(right of picture)

General Manager,  
Keller-Terra, Spain



**Competitive advantage through proprietary technologies**

Over the years, we have developed ground engineering techniques that are now widely accepted in the industry and are critical to the success of many construction projects. We design and build most of our specialist equipment for our exclusive use and for our customers' advantage.

**Niche provider, with few international competitors**

We operate in a specialist niche of the construction market. We have only a small number of international competitors, from whom we are differentiated by our highly decentralised, regional structure, which enables us to bring global technologies and know-how to local markets. Our competitors at a local or national level cannot match our range of techniques, capacity or breadth of experience.

**Industry-leading margins and return on capital**

Our reputation for producing innovative and reliable solutions – combined with our efficiency, contracts profile and cost-effective structure – enables us to earn premium margins. Over the past eight years we have consistently delivered margins of around 6% and a return on capital employed of around 20%.



Deep  
Experienced people  
with good industry  
knowledge

**“Consistently meeting the clients’ expectations requires skills, experience and teamwork. At Case, working together means everyone, from site personnel to project managers to the company president.”**

**Craig Bishop**

(right of picture)

VP, Operations,  
Case, USA



**Strength in depth through long-serving employees**

Keller attracts quality people who are motivated by the culture of empowerment, excellent job support, good reward and recognition, and opportunities for career growth. Ten per cent of all employees are qualified engineers. Thanks to excellent staff retention, we have accumulated significant experience and established a culture based on openness and teamwork.

**Acknowledged industry experts in ground behaviour**

Our engineers and project managers worldwide share knowledge internally through company forums and networks and regularly collaborate to find the best solutions. Externally, they work closely with architects, engineers, construction managers and contractors from project conception to conclusion.

**Decentralised regional structure brings us closer to clients**

A high degree of autonomy means that our businesses respond quickly to customers’ needs and changes in their marketplace. This is balanced by a clear control framework, which ensures that risks are managed at the most appropriate level in the organisation.



Global

**International business,  
but with strong local  
knowledge and presence**

“Our entry into North Africa illustrates our approach to geographic expansion: working with local people, who know the region, we first establish a reputation with our niche products, before seeking to broaden our range of services.”

**Tayeb Naidji**

(right of picture)

Overseas Manager,  
Keller Fondations  
Spéciales, France



**Industry-leading positions**

Keller is the number one player in North America, trading under four well-known local brand names; we also have leading positions in established European markets; we are the number one player in Australia; and we are growing in Asia and the emerging European markets.

**Global spread diversifies economic and political risk**

Operating over five continents, changes in Keller's geographic profile over the years illustrate our success in moving into new and growing markets. Our global spread reduces our exposure to national, and even continental, economic and political cycles.

**Able to compete in local markets**

Our structure of regional businesses, staffed by employees who understand the customs, regulations and culture of the region, allows us to compete effectively in local markets and to access lower risk, small-to-medium-sized contracts.



**Balanced**  
**With broad markets**  
**and customer base**

**“Operating in over 30 countries across five continents, and with a job portfolio that is well balanced in terms of contract size, market sectors and customer base, reduces our susceptibility to business and economic risks.”**

**Jochen Goerisch**  
Divisional Finance Director,  
Keller Continental  
Europe & Overseas



#### **Spreading our risk**

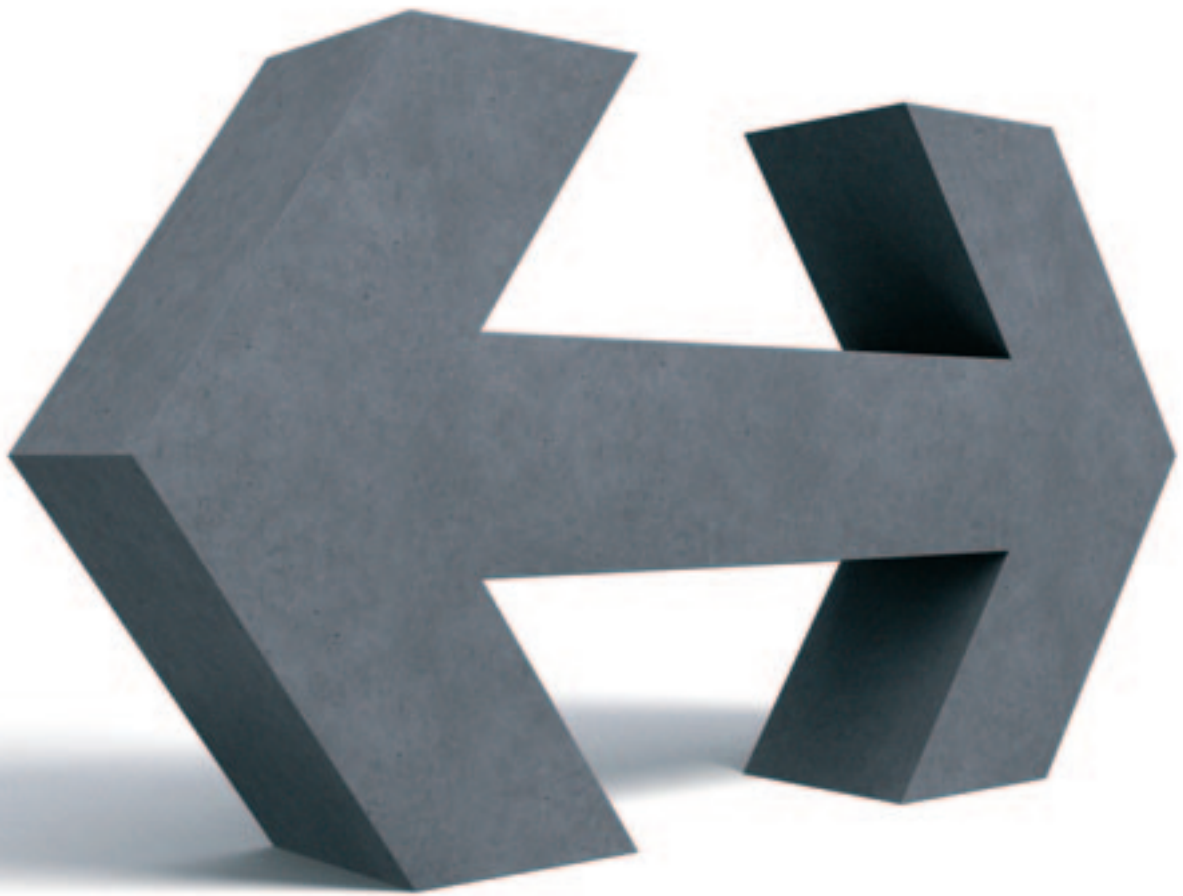
Our typical contracts portfolio has an excellent balance between small and large; public and private; and new-build and refurbishment projects, affording us some protection from business and public investment cycles. In 2004, around 30% of our work was in the public sector and 70% was for private clients.

#### **Predominance of small-to-medium-sized contracts**

Once again in 2004, small-to-medium-sized contracts predominated: we undertook over 7,100 contracts, of which over 90% had a value of less than £150,000. The average contract size was less than £80,000.

#### **Also able to undertake complex, multimillion-pound contracts**

Equally, Keller has the skills and capacity to undertake large, high-profile projects. Around 70 of our 2004 contracts had a value of over £1m, including foundations for an extension to the McCormick Place Convention Center in Chicago; grouting and anchors for a new underground rail link in Cologne; and sand compaction for the Palm Island development in Dubai.



**Broad**

**Wide range of industry-  
leading technologies  
and processes**

"2005 will see our first US application of the dry soil mixing technology acquired by the Group through its acquisition of LCM. It is new products such as this, together with advances in our equipment, that help to maintain our leading edge."

**George Burke**  
VP Engineering,  
Hayward Baker, USA



#### **Combining processes to produce cost-effective solutions**

The range of technologies at our disposal enables us to match the process to the engineering task in hand. The best and most cost-effective solution from an engineering and construction viewpoint often involves a variety of techniques to reflect differing ground conditions, or to support a range of structures, on a single site.

#### **Transferring technology between Group companies and between countries**

In their local markets across the world, our businesses are always looking for opportunities to introduce new techniques from elsewhere in the Group to increase their competitive advantage. They know they can always rely on support from other Keller engineers experienced in those techniques.

#### **Continuous improvement through a focused R&D programme**

Our R&D programme is focused on designing technically advanced, specialist equipment that will extend the range of techniques we can offer and improve our productivity – thereby helping to maintain our competitive edge.



**Growing**  
**Good long-term growth**  
**record and prospects**

**“The prospects for Suncoast look exciting, given the strength of residential construction in our key markets, coupled with new building code standards which over time should increase the demand for post-tensioning compared with traditional foundation methods.”**

**Larry Stadler**  
(left of picture)

President  
Suncoast, USA

**Russ Price**  
(right of picture)

VP, Operations,  
Suncoast, USA



**Track record built on organic growth and acquisitions**

Since our flotation in 1994, we have maintained a compound annual growth rate in adjusted EPS of around 10% with a more than fourfold increase in turnover from £148m in 1993 to £596m in 2004. Operating profit over the same period has grown from £9.2m to £33.7m.

**Strong track record of acquisition success**

Many sellers of local companies see Keller as the buyer of choice, given our record of developing acquired companies whilst retaining their individual character. This helps us to integrate new businesses and is one of the keys to our acquisition success.

**Opportunities remain good for acquisitions and organic growth**

Despite our dominant position, our combined ground engineering business in the US only represents around 10% of the highly fragmented US market. Prospects for growth through further consolidation in the US and elsewhere are complemented by good opportunities for organic growth.

# Operating review

## Justin Atkinson

I am pleased to report that 2004, my first year as chief executive, saw a return to good organic sales growth across the Group, demonstrating once again the strong underlying fundamentals of our international businesses.

### Conditions in our major markets

In North America, the very buoyant housing market held up well, whilst public infrastructure remained robust and commercial construction showed signs of improvement. In Europe, German construction output continued to fall, contrasting with our other principal markets, such as Spain, UK, and Poland, which remained strong and France, where market conditions firmed up. The Middle East saw increased levels of investment, but in the Far East there were fewer major projects in our markets.

### Operations

#### North America

The North American operations overall had a record year, with particularly strong performances from Suncoast and McKinney. Sales of £280.2m (2003: £270.4m) were 16% ahead on a constant currency basis. Operating profit before amortisation of intangibles of £21.0m (2003: £19.3m) was 22% ahead on a constant currency basis.

#### Suncoast

Suncoast increased its sales in the year by more than 30%, reflecting both higher volumes and increased selling prices. This, together with operating cost efficiencies, resulted in restored margins.

Combined sales from California and Arizona increased by more than 60%, marking further progress in the strategy of increasing the proportion of sales outside Suncoast's original, core Texan market through targeted growth in western states. Revenues from outside Texas now represent nearly 40% of total sales, compared to less than 30% in 2002, the first full-year following Suncoast's acquisition.

"Through ongoing development of our products and processes, we will continue to find the best solutions to our customers' needs and maintain our competitive positions around the world."

Justin Atkinson  
Chief Executive



The recent expansion of Suncoast's operations on the West Coast is expected to continue, assisted by the issue of new code standards by the Post-Tensioning Institute. These standards, which will gradually be introduced into building codes around the country over the coming years, are expected to be an important development in the advancement of post-tension slab-on-grade foundations. Over time they are expected to raise the design standard for all slab-on-grade foundations, making post-tensioning the preferred choice when compared to alternatives with which our products currently compete.

Whilst Suncoast may face further volatility in the price of steel strand, the fundamentals of the business remain strong and good opportunities exist going forward.

**Hayward Baker**

After a sluggish start, Hayward Baker recovered as the year progressed and has entered 2005 with a strong order book. Changes to the operational management and a reduction in overheads in the western region paid dividends and this region made a strong contribution to the full-year result. This was helped by the Marina Del Ray project in Los Angeles, where Hayward Baker performed soil mixing and vibro-replacement for the construction of a new waterfront condominium development. Amongst the 1,100 contracts completed during the year, Hayward Baker was responsible for installing retaining walls to provide excavation support for the Saluda Dam in South Carolina; the provision of compaction grouting for a sink-hole remediation project in Mulberry, Florida; and the installation of rock bolts and soil nails to stabilise rocky ground for the safe construction of luxury villas on Peter Island in British Virgin Islands.

In the final quarter of 2004, Hayward Baker won two significant tunnel-related projects in Los Angeles, where the company has a solid track record of performance on similar projects. The \$10.2m (£5.4m) Lower North Outfall Sewer Rehabilitation contract is for specialty grouting services to stabilise the soil above an existing sewer tunnel for the City of Los Angeles. Similar services will be provided for twin underground tunnels under construction for the Los Angeles County Metropolitan Transportation Authority. This \$9.4m (£5m) contract commenced at the start of January and should be completed by the end of 2005.

Hayward Baker was also awarded an \$11.6m (£6.2m) contract for soil stabilisation by the Florida Department of Transportation. This project is Keller's first application in the US of the dry soil mixing technology acquired by the Group through the acquisition of LCM in Sweden. The technology will be used to stabilise extremely soft and wet soils next to the existing US Route 1 in South Florida, so allowing the only road serving the Florida Keys to be widened from two to four lanes.

**Case**

Case started the year well but the momentum slowed a little in the second half, partly due to the four hurricanes that struck Florida, where the majority of Case Atlantic's work was performed in 2004. The contract for the expansion of the McCormick Place Convention Center in Chicago, where Case installed just over 1,000 caissons in six months, was a major contributor. Other notable contracts in the year included the installation of drilled shafts for an office development at One South Dearborn in Chicago and the TVA Paradise Fossil Plant in Drakesboro, Kentucky, where caissons were socketed into bedrock for the foundations of an addition to this coal-fired powerplant.



Hayward Baker undertakes slope stabilisation works for a luxury villa construction on Peter Island, British Virgin Islands.



Suncoast installs concrete structural spans and beams for a high-rise commercial development in Florida, USA.



Case and McKinney in joint venture install large and small diameter piling for a new leisure facility in New York State, USA.

# Operating review

## Justin Atkinson

Towards the end of the year, Case was awarded contracts for two landmark projects in New York and Chicago. The \$12.6m (£6.7m) contract to install caisson foundations for the new Goldman Sachs headquarters building in Lower Manhattan will start during March 2005. In Chicago, Case is providing foundations and excavation support for the new, 92-storey Trump International Hotel and Tower. This \$17.2m (£9.1m) contract is under way and should be completed by autumn 2005.

### *McKinney*

McKinney had a very successful second year under Keller ownership, with both sales and operating margin up on the previous year. Although the vast majority of contracts undertaken during the year had a value of less than £250,000, consistent with McKinney's market niche, its 2004 results were bolstered by several higher value contracts which all performed well, including work on the Seneca Niagara Falls Casino, which McKinney undertook in joint venture with Case.

### **Continental Europe & Overseas**

Our Continental Europe & Overseas business produced a steady performance, despite challenging conditions in some of its markets. Sales of £175.0m (2003: £165.2m) were some 8% above the previous year on a constant currency basis. Operating profit before amortisation of intangibles was £11.9m (2003: £13.8m), 12% below the previous year's strong result on a constant currency basis. This lower profit principally reflects the continuing difficult market conditions in Germany.



Keller-Terra performs micro-cement grouting on the foundation of the Presa de Caspe Dam in Zaragoza, Spain.



Geotechnik undertakes ground improvement works for a new motorway at Krapina, Croatia.



Keller Grundbau performs jet grouting at stations on the Amsterdam Metro, Netherlands.

Keller-Terra had another good year, increasing its sales in all major product areas, with its ground improvement techniques, in particular, continuing to gain market share. An increase in production capacity, to keep pace with the growth in the business, enabled as many as 30 sites across Spain to be operational at one time. Over 300 contracts were completed during the year, across a wide range of market sectors: from the A-3 highway in Madrid, where Keller-Terra undertook repairs to stabilise the embankment; to Zaragoza's Presa de Caspe Dam, where micro-cement grouting of the foundation was used to reduce water seepage.

Our French business performed well in its home market and made good progress in expanding its operations in North Africa. This resulted in the award of several contracts in Algeria, including the first phase of a ground improvement project at Bejaia harbour and the installation of stone columns for a new railway line near Oran. High levels of infrastructure investment are planned for the region which, coupled with Keller's growing presence and reputation in Algeria, Morocco and Tunisia, are expected to result in a growing contribution from these markets in 2005. In addition, a new branch was established in the French West Indies, introducing ground improvement technologies into this region of high seismic risk.

Our operations in Austria and Italy had a good year, with advances made in the introduction of Keller's specialty grouting techniques to the Italian market on metro projects in Turin and Bologne. Further progress was made in Eastern Europe, particularly Poland which had a strong year and where we expect a continued high level of investment spend to offer good opportunities going forward. LCM, our Swedish lime column subsidiary, in which we acquired the remaining 50% minority interest in January 2004, had a slow start to the year, recovering well in the second half.

Against a further decline in both the public and private sectors of the German construction market, sales and profit in our German operation were down on last year, reducing Germany's contribution to total Group sales to 7%. Work on the major underground rail link project in Cologne got under way satisfactorily and other noteworthy contracts undertaken included flood protection work on the River Rhine and ground improvement work for a road bypass in the Lausitz region. However, in order to remain profitable in this competitive market, a programme of initiatives to reduce costs and improve efficiencies commenced in 2004 and will be completed in the first quarter of 2005. As reported in our interim results announcement, cost reductions in response to soft market conditions were also instigated in our Portuguese operation, which saw an improvement in performance in the second half of the year. The redundancy costs incurred in both Portugal and Germany have been included in these results.

Within the Overseas division, the Middle East had a good result reflecting both a strong contribution from Saudi Arabia, where we completed the foundations for several industrial plants, and a good performance from Dubai where our work on the first prestigious Palm Island contract was completed on time in August. Within the Far East, although our results were below those of last year, our operations in Singapore performed well due to a large ground improvement contract for land reclamation in the Pulau Ubin region, and Malaysia continued its strategy of introducing grouting products into the market.



Keller Grundbau installs bored piles to support two new road flyovers at the North Manama Corridor, Bahrain.



Keller Malaysia performs jet grouting at the Pantai Trunk Sewer project in Kuala Lumpur, Malaysia.

# Operating review

## Justin Atkinson

### UK

Sales in the year were up 4% on the previous year at £108.3m (2003: £103.9m), with operating profit before exceptional items and amortisation of intangibles increased to £1.7m (2003: £0.5m).

### Makers

At Makers, following the management changes in December 2003, initial steps were taken to stabilise the business, reduce its cost base and refocus on its areas of core competence – social housing refurbishment in the South East, together with concrete repair work, principally in the car park and water markets. The disposal of Makers' specialist stone masonry business, A J Woods, in October 2004 formed part of this overall strategy. In the second half, the management team was reorganised and further strengthened and, going into 2005, the business is now in much better shape to take advantage of the opportunities it faces.

Despite first-half losses in discontinued areas of the business which were being run off, Makers returned to profitability in the second half and reported a small profit for the year as a whole, compared with a loss of £0.9m in 2003. Operating in an extremely buoyant market, the social housing division remained profitable throughout the year, working with a number of local authorities and housing associations to meet the government's Decent Homes Standard. One of the flagship contracts completed in 2004 was the restoration of the 1934 Grade 1 listed Isokon Building in Camden, London. Makers was awarded a Certificate of Excellence from the Concrete Society for this project, which involved extensive concrete repairs as well as external and internal refurbishment.



KGE undertakes slope stabilisation works for a housing development in Sussex, England.



Makers applies specialist water-sealing joints as part of a reservoir refurbishment project in Scotland.

## KGE

Keller Ground Engineering (KGE) had a satisfactory year overall, on lower sales following the withdrawal from heavy piling in 2003. The foundations support division responded well to the organisational changes introduced that year.

KGE's range of techniques enabled it to take on several design and construct projects, where different solutions were packaged to address customer problems in a technically efficient and cost-effective way. An example of this "value-engineering" approach was at Londonderry in Northern Ireland, where the original plans for foundations for a new retail warehouse were changed from an expensive and protracted pile-only scheme to a combination of vibro concrete columns and vibro stone columns with a load transfer platform. The work was completed, including testing, in just six weeks, representing a saving in both time and direct cost of around 50% against the original piled scheme.

KGE's specialist grouting and dry soil mixing systems were employed on a wide range of contracts during the year, including the installation of a cut-off curtain for a new dam at Kingairloch in Scotland; rock grouting and shaft consolidation for a rail tunnel at Strood; and stabilisation of Scarborough's East Pier.

## Australia

Sales of £32.4m (2003: £27.9m) were some 16% above the previous year whilst operating profit before amortisation of intangibles of £1.7m (2003: £2.0m) was 15% below.

The new ground engineering business, which commenced operations in January 2004 to promote the full range of ground improvement and specialty grouting solutions, started to establish itself and is expected to make a positive contribution in 2005.

International collaboration between our Australian businesses and Hayward Baker in the US was the hallmark of the Martha Cove project in Victoria, in which Keller introduced techniques not previously used in the Australian market to construct retaining walls for the excavation of an underpass.

## Maintaining our competitive edge

The development of our products and processes to improve our productivity and capability is continuous; it relies on excellent co-operation and communication between employees across our businesses from sales teams to research and development staff, design engineers and site personnel. Examples of innovations in 2004, which will help to maintain our competitive edge in the future, include:

- further investment in advanced equipment, such as state-of-the-art rock excavation tooling which enabled Case to remove granite- and quartz-based rock on a drop shaft project at Fall River in Massachusetts;
- the manufacture by McKinney's equipment division of its first hydraulic rigs;
- the development of a remote-controlled shuttle as a feeding device and carrier of materials for the production of dry soil mixed columns;
- in France, the introduction of composite columns, comprising a lower part in concrete and a traditional bottom-feed stone column on top; this new product will have applications for heavy buildings or organic soils, as an alternative to traditional piling;
- a jetted Soilcrete contiguous piled retaining wall system, developed and introduced in Australia, as an economic alternative to diaphragm walls;
- the development of a prototype minicat in the UK with combined capability for preboring and vibro stone columns;
- the further development at our German workshops of our latest vibrator systems; and
- improvements to our jet grouting equipment, designed to reduce mobilisation and maintenance costs.

We are confident that these and other ongoing improvements in our equipment, techniques and systems of work mean that we will continue to find the best solutions to our customers' needs and maintain our competitive positions around the world.

**Justin Atkinson**  
Chief Executive  
4 March 2005



Makers uses abseil access to carry out a concrete condition survey at Trellick Tower, London, England.



Franki, in collaboration with other Keller companies, installs a contiguous pile retaining wall at the Martha Cove development, Victoria, Australia.

# Financial review

## James Hind

**On a constant currency basis, the Group's 2004 sales and operating profit were both up 11% year on year.**

### Trading results

The Group's sales at £595.9m were 5% higher than in 2003. Movements in reported sales and profits were adversely influenced by fluctuations in foreign currency exchange rates. The average US dollar exchange rate against sterling was \$1.83, 12% weaker than in 2003, while the average euro exchange rate weakened by 2%. On a constant currency basis, the Group's 2004 sales were 11% up on 2003.

Operating profit before exceptional items and the amortisation of intangibles was £33.7m, compared to £32.8m in 2003. The 2004 result is stated after a £2.3m net adverse currency impact, primarily due to the weaker US dollar. On a constant currency basis, operating profit was also up 11% year on year.

The Group's trading performance is discussed in more detail in the chairman's statement and the operating review.

### Interest

The net interest charge changed little from £4.2m in 2003 to £4.1m in 2004. EBITDA interest cover remains comfortable at over ten times.

### Tax

The Group's effective tax rate, before exceptional items and amortisation of intangibles, was 38%, down slightly from 39% in 2003. The effective rate reflects the fact that the vast majority of the Group's profits are earned in relatively high tax jurisdictions, in particular the United States where the effective combined federal and state tax rates are nearly 40%. The reduction in the effective rate in 2004 is due to lower taxable losses in the UK (after central costs and interest).

### Earnings and dividends

Earnings per share before exceptional items and the amortisation of intangibles increased by 4% to 25.1p. Following the recommendation of an increased final dividend of 7.3p per share, the total dividend for the year is 10.9p, an increase of 5% on 2003. This is covered 2.3 times by adjusted earnings per share.

**"The increase in sales on 2003 represents strong organic growth across our international markets."**

**James Hind**  
Finance Director



## Cash flow and net debt

Net cash inflow from operating activities was £33.6m, representing 75% of the Group's EBITDA. This compares to £40.0m and 98% in 2003. Year-end working capital was higher than last year's level, reflecting the significantly higher cost of Suncoast's raw materials and the strong organic growth across the Group.

Capital expenditure decreased by 17% in the year, although the proceeds from the sale of fixed assets also fell. Net capital expenditure in the year was £11.8m, which represents 1.1 times depreciation.

After paying tax, interest and dividends, year-end net debt decreased marginally from £60.7m at 31 December 2003 to £60.0m at the end of 2004. Net debt at the year end represents 1.3 times EBITDA. Based on net assets of £101.4m, gearing was 59%, down from 62% at the beginning of the year.

## Refinancing

During the year the Group's debt was refinanced to reduce the cost of borrowing and diversify our sources of funding, as well as to increase our committed facilities to support the Group's continued growth. In October, US\$100m was raised through a private placement with US institutions. The proceeds of the issue of \$30m 5.05% notes due 2011 and \$70m 5.48% notes due 2014 were used to refinance existing debt. In December, the Group negotiated a new £80m, five-year syndicated revolving credit facility at a reduced margin.

The \$100m fixed rate private placement liabilities were immediately swapped into floating rates, \$75m by means of US dollar interest rate swaps and \$25m through a dollar:euro cross currency and interest rate swap. These, together with other borrowings, are held as hedges against the Group's dollar and euro denominated net assets.

## Pensions

The Group offers defined benefit pension arrangements in the UK, Germany and Austria. The last actuarial valuation of the UK scheme, which has been closed to new members since 1999, was as at 5 April 2002. At this date, the market value of the scheme's assets was £14.6m and the valuation concluded that the scheme was 79% funded on an ongoing basis. In order to reduce the deficit, the Group subsequently increased both the employee and employer contribution rates. The next actuarial valuation is as at 5 April 2005.

The transitional disclosures required by FRS 17, which are set out in note 29 of the financial statements, show that, as at 31 December 2004, the pre-tax deficit in the UK scheme was £8.2m on an FRS 17 basis, up from £6.0m at the end of 2003.

In Germany and Austria, there are no segregated funds to cover defined benefit retirement obligations for the German and Austrian employees. Instead, the respective liabilities are included within provisions on the Group balance sheet. All other pension provisions in the Group are of a defined contribution nature.

## Accounting standards

The Group's report and accounts have been prepared in accordance with applicable UK accounting standards (UK GAAP). They have not been significantly impacted by any new accounting standards.

As noted in the 2003 Annual Report, the Group is required to produce financial statements for accounting periods beginning on or after 1 January 2005 in accordance with International Financial Reporting Standards (IFRS). The 2005 accounts will also require the 2004 comparative numbers to be restated to comply with IFRS.

Keller has undertaken a detailed review of the impact that IFRS will have on its financial results and balance sheet. The Group can confirm that it expects the main areas of impact on its financial results to be:

- non-amortisation of goodwill, to be replaced with annual impairment testing (IFRS 3);
- pensions accounting (IAS 19);
- the timing of accruals for dividends (IAS 10);
- share-based payments (IFRS 2); and
- financial instruments (IAS 39).

## Operating margin (%)\*

2004	5.7
2003	5.8
2002	6.7
2001	6.0
2000	5.7
1999	6.2
1998	6.4
1997	5.8
1996	5.4
1995	5.1
1994	5.0

\* before amortisation of intangibles and 2003 exceptionals

In order to assist an understanding of the likely impact of IFRS adoption, an estimate of the effect of these items on the Group's 2004 results and net assets is summarised below.

	Profit before tax £000	Net assets £000
<b>As reported under UK GAAP (post amortisation)</b>	<b>26,638</b>	<b>101,427</b>
<b>Adjustments to comply with IFRS:</b>		
Goodwill	2,877	(7,630)
Pensions	136	(6,541)
Dividends	-	4,771
Share-based payments	97	-
<b>Restated to comply with IFRS</b>	<b>29,748</b>	<b>92,027</b>

Goodwill amortisation will no longer be allowed and companies will instead be required to assess at each reporting date whether there is an indication that an asset may be impaired. In addition, IAS 21 requires goodwill to be denominated in local currencies and retranslated at each reporting date at closing exchange rates.

The Group currently applies SSAP 24 to account for defined benefit pension schemes and complies with the FRS 17 transitional arrangements. IAS 19 is broadly consistent with FRS 17 except that it provides the option not to recognise actuarial gains and losses below a threshold while spreading forward those above this threshold over the average remaining service life of the employees in the scheme. If the spreading option is not adopted then the effect of adopting IAS 19 is broadly the same as FRS 17. The Group pension deficit, net of deferred tax, will be debited to equity at the date of transition.

Under existing UK GAAP, dividends are included in the financial statements on an accruals basis when proposed. Under IAS 10 dividends are not permitted to be recognised unless there is a commitment to pay them at the balance sheet date.

In accordance with UITF 17, the intrinsic value of share awards granted under employee share schemes is recognised as a cost in the profit and loss account, spread over the performance period. The provisions of IFRS 2 require recognition of the fair value rather than the intrinsic value of options and performance shares.

IAS 39 requires derivative financial instruments to be included on the balance sheet at fair value. Significantly more onerous criteria will need to be met before companies are entitled to apply hedge accounting to their financial instruments and offset changes in the fair value of hedging instruments with changes in the fair value of the hedged items. This could potentially increase the volatility of companies' results, however it is envisaged that the Group's hedge accounting practices will meet the criteria stipulated by IAS 39 and the introduction of the standard is not expected to have a significant impact on the Group's 2005 results.

In addition to the above, there will be a number of changes to the format and disclosures of the 2005 interim and full-year financial statements resulting from the adoption of IFRS. The 2005 accounts will include a detailed reconciliation of the 2004 financial results and position as previously reported under UK GAAP, to the 2004 financial results and position adjusted to comply with IFRS.

**James Hind**  
Finance Director  
4 March 2005

#### Dividend per share (p)

2004	10.9
2003	10.4
2002	9.9
2001	9.2
2000	8.5
1999	7.8
1998	7.1
1997	6.5
1996	5.9
1995	5.3
1994	4.8

# Social responsibility

## Environment

### *Bringing benefits to the environment*

Within the Keller Group we recognise the impact of our businesses on the environment, with many of our products contributing environmental benefits. These include land reclamation schemes, soil erosion control, flood control, decontamination or containment of contamination and the preparation of brownfield sites.

During 2004, our recently strengthened geoenvironmental team at Keller Ground Engineering (KGE) worked with several customers to solve their ground-related environmental problems, restoring to the relevant standards sites ranging from former industrial sites to landfills. These included a former gasworks in South West England, where our permeable reactive barrier system for the control of contaminated groundwater was employed in conjunction with a slurry wall cut-off barrier and wet soil mixing. At Waterford, in Ireland, our package of remediation and containment is proving the key to developing a new superstore on a site affected by hydrocarbon contamination.

In Germany, we continued the restoration work in which we have been involved over a number of years, enabling a former mining area in the Lausitz region to be converted to recreational use, whilst in Singapore and Dubai we were involved in further land reclamation projects.

Amongst the recent environmental projects we have undertaken in North America was the installation of a cut-off barrier for a large chemical plant in Delaware City. The existence of overhead lines at one end of the site and an operational railway at the other made conventional excavation difficult and expensive. Our alternative solution was to use jet grouting to create a cut-off around the overhead line and railway tracks without affecting the plant's operations.

Our North American businesses have also had involvement in a number of selective catalytic reactor (SCR) projects at existing coal-fired power plants. The installation of SCRs, which remove contaminants from smoke stack emissions, requires foundations to be built within existing, often fully operational, power plants.

Once again, Group companies were involved in a variety of dam remediation schemes, forming part of a worldwide focus on upgrading major dams to prevent premature failure due to soil erosion and earthquake. For example, Keller-Terra was involved in the grouting of dams in the Zaragoza and Badajoz regions of Spain; in Germany we installed a cut-off membrane wall at a dam along the River Maine; in Australia we installed stone columns to strengthen the Hindmarsh Valley Dam, and our French operation has recently secured contracts for dam foundations in Tunisia. Over the past few years, our companies have been heavily involved in flood protection schemes in Poland, Slovakia and Austria, where our works have included improving the core sealing of river dykes to reduce their permeability and increasing the height of the dykes to improve their overall stability.

Our Makers business continues to work with local authorities and housing associations in the UK on the structural refurbishment of social housing, much of which was constructed in the 1960s and 1970s. As an alternative to demolition and rebuild, these projects are resource-efficient and have fewer environmental impacts. In addition, they invariably bring thermal efficiency benefits, resulting in reduced energy consumption.

### *Environmental management systems*

Notwithstanding the benefits of many of the schemes in which we are involved, we are conscious that many of our site activities have environmental impacts. Most notably, these involve noise, dust and slurry emissions and the use of specialist products, such as grouts. We have a continuous programme of trying to mitigate these impacts by, for example, selecting new plant with reduced noise emissions, researching the viability of new, more benign materials and seeking better ways of capturing waste from drilling.

In 2004, our German operation developed and built a noise protection system for the execution of grouting works at stations on the Amsterdam Metro. This system will have wide application in noise sensitive areas. During the year, our Australian business invested in its third "silenced" hydraulic hammer, which has a significantly reduced noise level and impact on the environment, whilst continuing to develop in-house, vibration-free systems for areas where driven piles are prohibited.

The business uses rotary displacement piles in areas of contaminated soil, where its removal could otherwise lead to significant pollution issues.

Our environmental management systems are not uniform across the Group. Our businesses have all adopted systems which reflect their local regulations, culture and business needs. In Australia, for example, we have developed an Environmental Noise and Vibration Management Plan, which is modified to suit the specific requirements of individual sites. This plan involves community consultation, including advising local residents and businesses of the duration of our activities and providing an in-house contact who will discuss their concerns.

#### Working with the community

Many projects in which Group companies are involved are located in remote areas, away from local populations and, therefore, there is usually little impact on, or relationship with, a local community.

For most of our businesses, support for local community projects is indirect – by, for example, sponsoring or supporting the efforts of employees who are involved in charitable or community projects.

A notable exception to this is Makers which, through its social housing refurbishment schemes, has significant interfaces with residents and community groups. Makers has an experienced, in-house resident liaison team which manages these interfaces on a project-by-project basis. Makers prides itself in having an effective dialogue with residents, which includes liaison meetings with residents, newsletters and the distribution of site brochures (often in several languages) to advise residents on how they will be affected by the works.

#### Health and safety

##### Principles of health and safety

We are committed to providing a healthy and safe working environment for all our employees and others affected by our works. The managing director of each division is responsible for ensuring that formal health and safety policies are developed, published and maintained and that organisational arrangements for health and safety management are established and maintained in the businesses within their division. Responsibility for implementing the health and safety policies rests with the line management of each business and with each individual employee. As a minimum standard, local policies and

organisational arrangements for health and safety must include compliance with all legal requirements and the creation of a safety awareness culture by encouraging employee involvement in health and safety matters.

#### Safety performance in 2004

Whilst, thankfully, fatal accidents have been rare in the history of the Keller Group, it is with much sadness that we report the death of a site superintendent following an accident on a site in Spain in May 2004. An investigation by the Spanish safety authority is ongoing.

The board regularly reviews the health and safety performance of its operating companies and, where possible, compares performance against industry norms. Standard measures of safety performance, as published by national safety regulators, vary from country to country. Within the Group, we use the accident frequency rate (AFR) and accident incident rate (AIR) to track the safety performance of our businesses, where AFR is the number of accidents per 100,000 hours worked and AIR is the number of accidents per 100,000 employees and where “accidents” comprise fatalities, major injuries (as defined by the Health and Safety Executive) and injuries involving more than three days’ absence. The AFRs and AIRs for 2004 and 2003 are shown below.

	2004		2003	
	AFR	AIR	AFR	AIR
North America, excluding Suncoast	1.10	2,092	1.30	2,851
Suncoast	0.52	1,196	1.34	3,074
Continental Europe & Overseas	2.87	5,676	3.52	7,900
UK – KGE	0.87	1,746	1.16	2,781
UK – Makers	1.00	1,997	0.86	1,799
Australia	1.21	2,829	2.29	7,689

Recognising that different safety frameworks and cultures operate in different parts of the world, we use the above measures to monitor safety performance over time within a business, rather than trying to compare safety performance across businesses. For example, in many parts of Continental Europe, state-operated accident insurance arrangements indirectly encourage employees who are involved in accidents at work to remain absent for more than three days and this has a detrimental effect on the AFR and AIR measures of businesses operating in those countries.

We are pleased to report that the AFRs and AIRs for 2004 show a year on year improvement overall.

### **North America**

In North America, a construction company's safety record, relative to other businesses, is more commonly measured through the experience modification rating (EMR). A low score indicates a good safety record. In 2004 the combined EMR for Hayward Baker, Case and McKinney was 0.64, against an industry standard rating of 1.00 and a previous year's rating of 0.73.

This improvement reflects the effort and resources which are dedicated to improving safety performance. Case, Hayward Baker, McKinney and Suncoast each employ full-time safety professionals who during 2004 have co-operated on many safety improvement initiatives including:

- sharing results of incident investigations;
- running specific safety programmes, such as crane safety training;
- developing consistent safety audit criteria; and
- establishing a joint supplier programme for safety supplies and bought-in training, to improve consistency and buying power.

### **Continental Europe & Overseas**

In our Continental Europe & Overseas operations, a procedure for on-site health and safety forms part of the quality management system. In addition, operating units are required to respect and comply with all local regulations. To the extent feasible, training courses are held on a regular basis in order to improve risk awareness on site. Each business unit employs a safety officer, either on a full- or part-time basis, according to the business need and local regulations. Performance is monitored by the divisional head office in Germany and compared to national standards, where these are available. In Germany, the safety performance of our operations has been at least 15% better than the industry average for the past three years.

### **UK**

In the UK, KGE saw a reduction in the number of reportable accidents in 2004 to six (2003: 13). This resulted in a reduced AIR of 1,746, which compares with a 2004 average AIR of 2,455 for members of the Federation of Piling Specialists, the most appropriate comparator group. During 2004, both KGE's skills training supervisors achieved their A1 Qualification in Assessment of NVQs and the business held its first Foreman's Safety Awareness Day, with further such days planned in the future.

Makers recorded an increase in the total number of accidents reported to the HSE to 18 (2003: 16). Its AIR increased to 1,997, which still compares favourably with a construction industry average, excluding fatalities, of 2,280. Towards the end of 2004, Makers appointed a new quality manager, whose initial objectives are to review and overhaul the Company's Integrated Management System, including the safety policies and procedures.

There were no HSE prosecutions or enforcement notices brought against either of our UK businesses in 2004 and there are none pending.

### **Australia**

The key safety objective for our operations in Australia is to achieve zero lost-time injuries. Franki and Vibropile recorded four and two lost-time injuries respectively, down from nine and seven in 2003. Incident and frequency rates remain significantly below the national construction industry average.

### **Employees**

Throughout the year our businesses have continued to use a variety of media and forums for communicating with their employees including company newsletters, consultative councils, results presentations, suggestion schemes and informal channels, such as company-wide social events.

In addition to job-specific and safety training, in which considerable resource is invested by all our businesses, the Group has a three-tier management development programme.

It comprises basic modules, which are offered locally in the main centres of operation; a strategic programme offered each year to some 20 managers from across the Group; and the further development of individuals at, or just below, board level through executive programmes at international business schools.

It is our policy to employ and train disabled people wherever their skills and qualifications allow and when suitable vacancies are available. Disabled employees are encouraged to undertake training and career development to prepare them for promotion. Should existing employees become disabled, every effort is made to find appropriate work and training if appropriate.

## Board of directors Executive directors

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors.

1. **Justin Atkinson** Chief executive. Joined the Group in 1990. Group financial controller from 1995–99. Appointed finance director in 1999, chief operating officer in 2003 and chief executive on 1 April 2004. Member of the Nomination Committee. Age 44.
2. **James Hind** Finance director. Joined the Group on 15 July 2003 from D S Smith plc, where he was group financial controller. Previously with Coopers & Lybrand, including two years in their New York office advising on mergers and acquisitions, before completing five years as a senior manager in London. Age 40.
3. **Bob Rubright** Managing director, North America. Joined the Group in 1984 with the Hayward Baker acquisition. Appointed president, Hayward Baker in 1994 and president, Keller Foundations Inc. in 1998. Appointed to the board in 2003. Age 53.
4. **Dr Wolfgang Sondermann** Managing director, Europe & Overseas. Joined the Group in 1986. Appointed deputy managing director, Europe & Overseas in 1998 and managing director in 2001. Appointed to the board in 2003. Age 54.



## Board of directors Non-executive directors

In compliance with the Combined Code, the board included at least two independent, non-executive directors throughout the year.

**5. Dr Michael West** Non-executive chairman. Joined the Group in 1964. Chief executive of Keller Group of companies 1982–95. Appointed director of Keller Group in 1990. Appointed chairman in 1995 and became non-executive chairman upon retirement in 1997. Chairman of the Nomination Committee. Age 67.

**6. Keith Payne** Non-executive director. Appointed to the board in 1999. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. From 1991 to 1996 he was an executive director of BET plc with responsibility for finance, planning and development. Age 62.

**7. Richard Scholes** Non-executive director. Appointed to the board in 2002. Member of the Remuneration, Audit and Nomination Committees. Mr Scholes was a director at Dresdner Kleinwort Wasserstein from 1986 to 2001. He is a non-executive director of Bodycote International Plc, Chaucer Plc, Crest Nicholson Plc and Marshalls plc. Age 59.

**8. Pedro Lopez Jimenez** Non-executive director. Appointed to the board in 2003. Mr Lopez Jimenez is chairman of Terratest Tecnicas Especiales S.A. and a non-executive director of ACS Actividades de Construccion y Servicios S.A. Mr Lopez Jimenez, who is also a director of a number of other Spanish businesses, was Secretary of State for Public Works and Urban Development in the Spanish Government between 1977 and 1979. Age 62.

**9. Gerry Brown** Non-executive director. Appointed to the board in 2001. Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. From 1998 to 2000, chairman of Mainland Europe for Tibbett & Britten Group plc. Mr Brown is a non-executive director of Forth Ports plc, Vantec Corporation, C.H. Jones Ltd and M H Gerson Ltd. He is also chairman of Upol Ltd and chairman of Europe at Quintiles Transnational Corporation. Age 60.

**10. Dr Kevin Bond** Non-executive director. Re-appointed to the board in 2003. Member of the Remuneration, Audit and Nomination Committees. Non-executive director of Keller from 1999 until 2002, when he was appointed director of the Police Standards Unit. Chief executive of Kelda plc from 1995 to 2000, then managing director of the European division of Earth Technologies Inc. until September 2002. Age 54.



# Financial content

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# Directors' report

The directors present their report, together with the audited accounts for the year ended 31 December 2004.

## Principal activities

Keller Group plc is a holding Company. Its principal subsidiary undertakings are engaged in specialist ground engineering, providing the construction industry around the world with an extensive range of problem solving techniques and services.

## Business review

A review of the Group's progress and prospects may be found on pages 18 to 23.

## Results and dividends

The results for the year, showing a profit before taxation of £26,638,000 (2003: £14,806,000), are set out on page 48.

The directors recommend a final dividend of 7.3p per share to be paid on 28 June 2005, to members on the register at the close of business on 27 May 2005. An interim dividend of 3.6p per share was paid on 1 November 2004. The total dividend for the year of 10.9p (2003: 10.4p) will amount to £7,121,000 (2003: £6,768,000).

## Directors

The names and biographical details of the directors who hold office at the date of this report are given on pages 30 and 31. All served throughout the year. In addition, Mr Dobson was a director until his retirement on 31 March 2004.

## Retirement and re-election

Mr Atkinson, Mr Brown and Mr Scholes retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

## Substantial shareholdings

At 4 March 2005, the Company had been informed of the following interests in the Company's issued ordinary share capital:

	Number of shares held	Percentage of issued share capital
Schroder Investment Management Ltd	16,133,253	24.68
Terratest Tecnicas Especiales S.A.	6,541,985	10.01
Legal & General Investment Management Ltd	2,591,011	3.96
Dr J M West	1,968,000	3.01

Apart from the above interests, the Company has not been notified, and is not aware, of any other person who is directly or indirectly materially interested in 3% or more, or who has a non-material interest in 10% or more, of the issued ordinary share capital of the Company.

## Research and development

Keller has a reputation for engineering excellence and innovation. The Group has in-house design, development and manufacturing facilities where staff work closely with site engineers continually to develop new and more effective methods of solving problems of ground behaviour. Much of the specialised equipment we use is designed and built by Keller.

## Management of financial risks

### Currency risk

The Group faces currency risk principally on its net assets, of which a large proportion is in currencies other than sterling. In order to reduce the impact that retranslation of these assets might have on the balance sheet, the Group manages its borrowings, to the extent possible, to hedge its foreign currency assets. Where possible, hedging is carried out by borrowing in the same currency as the assets being hedged.

The Group manages its currency flows to minimise currency transaction exchange risk and forward contracts are used to hedge significant individual transactions. The majority of such currency flows within the Group relate to repatriation of profits and intra-Group loan repayments. The Group's foreign exchange cover is executed primarily in the UK. At 31 December 2004 there were no forward exchange contracts outstanding (2003: £588,000).

The Group does not trade in financial instruments nor does it engage in speculative derivative transactions.

### Interest rate risk

Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose of the financing.

All drawdowns against the Group's central borrowing facility are reviewed and the interest rate adopted depends upon the interest rate outlook for the subsequent six months. The facility affords the Group the ability to choose from one-, three- or six-month interest rates for its drawdowns.

### Credit risk

Amounts deposited with banks and other financial institutions give rise to credit risk. This risk is managed by limiting the aggregate amount of exposure to any such institution by reference to their credit rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

### Corporate governance

This is the subject of a separate report on pages 43 to 46 which details the Company's compliance with the Combined Code on Corporate Governance, incorporated into the Financial Services Authority's Listing Rules. The remuneration report is set out on pages 35 to 42.

# Directors' report continued

## Going concern

The accounts have been prepared on the going concern basis as the directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

## Payments to suppliers

The Group's policy, in relation to all of its suppliers, is to settle terms of payment when agreeing the terms of the transaction and to abide by those terms, providing that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code or statement on payment practice.

At 31 December 2004 the Group had 59 days' (2003: 62 days') purchases outstanding.

## Political and charitable contributions

No contributions were made to any political party during the year. Donations made by the Group in the UK for charitable purposes were £3,000 (2003: £8,000).

## Social responsibility

The Group's approach to employee involvement, disabled persons, health and safety and the environment are discussed in the social responsibility report on pages 27 to 29.

## Annual General Meeting

The full wording of the resolutions to be tabled at the forthcoming Annual General Meeting is set out in the Notice of Annual General Meeting.

## Resolution number 8 – Scrip dividends

Article 162 of the Company's Articles of Association permits the directors, subject to the authority of the Company in general meeting, to offer to shareholders the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of dividends declared by the Company or by the directors.

The board recommends that by an ordinary resolution it be given authority to make such offers until the conclusion of the next Annual General Meeting.

## Resolutions numbered 9 and 10 – Authority to allot shares

Under the Companies Act 1985 (the Act), the directors of the Company may only allot unissued shares if authorised to do so under Section 80 of the Act. Section 89 of the Act also prevents allotments for cash, other than to existing shareholders in proportion to their existing holdings, unless the directors are specifically authorised. This gives existing shareholders what are known as "pre-emption rights".

The Articles of Association give a general authority to the directors to allot unissued shares and disapply these pre-emption rights. Passing resolutions 9 and 10 will extend the directors' flexibility to act in the best interests of shareholders, when opportunities arise, to issue new shares.

The directors will be able to issue new shares up to a nominal value of £2,176,579 which is equal to approximately 33.3% of the issued ordinary share capital at 4 March 2005.

The directors will also be able either to issue shares for cash, other than to existing shareholders in proportion to their existing holdings, up to a maximum nominal amount of £326,814 representing about 5% of the issued ordinary share capital at 4 March 2005 or, other than for cash, in a rights issue.

These arrangements are intended to ensure that the interests of existing shareholders are protected so that, for example, in the event of a share issue which is not a rights issue, the proportionate interests of existing shareholders could not, without their agreement, be reduced by more than 5% by the issue of new shares for cash to new shareholders.

The board has no current plans to allot ordinary shares except in connection with the executive share arrangements.

The authority sought by resolutions 9 and 10 will expire at the conclusion of the next Annual General Meeting, but could be varied or withdrawn by agreement of shareholders at an intervening general meeting.

## Resolution number 11 –

### Purchase of the Company's own shares

This resolution grants a limited authority to the Company to purchase through the market up to 10% of the issued ordinary share capital. The resolution specifies the maximum and minimum prices at which the shares may be bought at the date of the notice. The authority sought will expire at the conclusion of the next Annual General Meeting. The directors have no immediate intention of exercising the proposed authority when it becomes effective. Any purchases will only be made when, in the opinion of the directors, an improvement in earnings per share of the remaining shares is anticipated and it is in the best interests of shareholders generally.

## Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Jackie Holman  
Secretary  
4 March 2005

# Remuneration report

## Introduction

In preparing this report, the Committee has complied with the Directors' Remuneration Report Regulations 2002 (the Regulations) and the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003. As in previous years, a resolution to approve the report will be proposed at the forthcoming Annual General Meeting of the Company.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information. Within the unaudited section, the report deals with the remuneration policy that is to be followed from 1 January 2005.

## Remuneration Committee

The Company has established a Remuneration Committee (the Committee) in accordance with the recommendations of the Combined Code. The names of members of the Committee are given below. All members served on the Committee throughout the year. Mr Brown is, and was throughout the year, the chairman of the Committee.

### Committee members

E G F Brown (chairman)  
Dr K Bond  
K F Payne  
R T Scholes

The principal function of the Committee is to agree with the board the framework and policy for the remuneration of the Group's executive management and to determine, on behalf of the board, the remuneration packages of the executive directors. The Committee is also responsible for monitoring the level and structure of remuneration for senior management and for annually reviewing and noting remuneration trends across the Group. As more than 80% of the workforce is based outside the United Kingdom, remuneration packages for the Group's senior management reflect local market conditions.

No member of the Committee has any personal financial interest (other than as a shareholder), conflict of interest arising from cross-directorships or day-to-day involvement in running the business. No director plays a part in any discussion about his own remuneration. As discussed in the corporate governance report on pages 43 to 46, the board considers Mr Brown, Dr Bond, Mr Payne and Mr Scholes to be independent directors.

The frequency of, and attendance at, meetings of the Committee during the year is shown in the corporate governance report on page 44.

In determining the executive directors' remuneration for the year, the Committee has consulted Dr West, the chairman and Mr Atkinson, the chief executive, about its proposals, except in relation to their own remuneration.

During the year, New Bridge Street Consultants LLP (NBSC) has advised the Committee on long-term incentive arrangements. Since the year end, NBSC has also advised the Group on the valuation of share-based payments.

## Remuneration policy and arrangements

The objective of the remuneration policy is to ensure that members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

Executive directors are assessed individually so that their remuneration is directly related to their performance over time and so that a significant proportion of their remuneration package is performance related.

The Committee has adopted the principle that basic salary should be set broadly in line with the median for executives in a role of comparable standing and that directors should be able to achieve total remuneration at the market upper quartile level when justified by performance.

# Remuneration report continued

In December 2004, the Committee reviewed the remuneration packages of the executive directors. The salaries, benefits and bonuses of the UK-based executive directors were compared with those in over 30 comparator businesses which were selected having regard to size, profitability and geographic spread. This review showed that in 2004 salary and maximum bonus levels were below the market median. The Committee has resolved to bring executive directors' remuneration in line with the median, albeit that this may need to be achieved in stages. Since the year end, The Hay Group Management Limited has been commissioned to benchmark the remuneration packages of the overseas executive directors against comparable roles in their local markets.

There are five main elements of the remuneration package for executive directors and senior managers: basic salary, performance-related annual bonus, long-term incentive arrangements, pension arrangements and other benefits. The performance-related elements are designed to deliver a maximum of 110% of annual basic salary – 60% in annual bonus and 50% from long-term incentives – if all performance targets are met in full.

## **(i) Basic salary**

An executive director's basic salary is determined by the Committee before the start of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee takes account of the Group as a whole and seeks to be competitive, but fair, using information provided both by external and internal sources.

## **(ii) Performance-related annual bonus**

Performance-related annual cash bonuses are designed to reward contribution and to encourage the achievement of targeted levels of performance over the short term.

The maximum annual cash bonuses for executive directors are set by the Committee and are subject to stretching targets linked to financial performance in the year and to individual performance against objectives set by the Committee. The performance-related bonus is not pensionable.

In December, the Committee decided to increase the maximum bonus from 50% to 60% of basic annual salary from 1 January 2005, bringing the maximum bonus more in line with the market median.

The 2005 bonus targets for Mr Atkinson and Mr Hind are linked to the achievement of Group earnings per share before amortisation of goodwill and exceptional items (EPS), profit before tax (PBT) and average net debt targets and to personal, task-based objectives. The 2005 bonus targets for Mr Rubright and Dr Sondermann are linked to the achievement of divisional operating profit and average net debt targets, Group EPS and PBT targets and personal, task-based objectives. Actual financial performance targets for 2005 are considered to be commercially sensitive and are not, therefore, disclosed in this report.

## **(iii) Long-term incentive arrangements**

The Company's long-term incentive arrangements are intended to encourage executive directors and other senior managers to focus on long-term, strategic corporate objectives and to further align the interests of management and shareholders.

Since 2001, the Group has operated an Inland Revenue approved executive share option plan and an unapproved executive share option plan (the 2001 Plans). Under the 2001 Plans, options were granted annually, subject to the market value of shares over which options were granted in any 12-month period not exceeding the value of the executive's annual basic salary. The exercise of options granted under the 2001 Plans is subject to the Company achieving real EPS growth over any three-year period of not less than 4%.

In 2004, shareholders approved a new Performance Share Plan, to replace the 2001 Plans. No options have been granted under the 2001 Plans since 2003 and it is the Committee's current intention that no further options will be granted under these Plans.

# Remuneration report continued

Under the Performance Share Plan, performance share awards may be granted each year to selected senior executives. Grant levels will depend on individual or business performance. The rules limit annual awards to 100% of an executive's basic annual salary, unless the Committee determines that exceptional circumstances exist, eg to facilitate the recruitment or retention of a key executive, in which case an award may be granted up to 200% of the relevant executive's annual basic salary.

Performance share awards are released to executives after three years, subject to demanding performance conditions being met. Currently, 50% of a performance share award is conditional on targets based on growth in EPS and the remaining 50% is based on relative total shareholder return (TSR) against a comparator group of similar businesses. Under this approach, in order for awards to vest in full, there must be strong financial performance as well as stock market outperformance.

The following EPS growth targets currently apply:

For half of the shares subject to a performance share award	Proportion of shares that vest
<b>EPS Growth (average over 3 years)</b>	
Less than RPI + 4% pa	0%
RPI + 4% pa	40%
RPI + 9% pa	100%
Between RPI + 4% pa and RPI + 9% pa	Between 40% and 100% on a straight line basis

TSR performance is compared to the companies comprising the FTSE All-Share Construction and Building Materials Sector at the date of grant, on the following basis:

For the other half of shares subject to a performance share award	Proportion of shares that vest
<b>Relative TSR (after 3 years)</b>	
Below median ranking	0%
Median ranking	40%
Top decile ranking	100%
Between median and top decile ranking	Between 40% and 100% on a straight line basis

Performance is measured over a single three-year period. To the extent that the targets are not achieved, the award lapses. At the end of the performance period, TSR calculations will be independently performed for the Committee by NBSC. We do not expect the calculation of EPS to be affected significantly by the introduction of international financial reporting standards, the impact of which is discussed in the financial review on pages 25 and 26.

## *(iv) Pension arrangements*

Mr Atkinson and Dr West are both members of the Keller Group Pension Scheme. This scheme provides a lump sum death in service benefit and pensions for dependants on death in service or following retirement. Mr Atkinson will be eligible for a pension based upon a percentage of final salary. This percentage will increase with pensionable service to a maximum of two-thirds. Dr West retired in 1997 and is currently receiving a pension under the Scheme.

Dr Sondermann is a member of the defined benefit pension arrangements established by Keller Grundbau GmbH under which, at age 65, he will be eligible for a single lump-sum payment of €75,000 and a pension of €8,000 per annum.

In addition, Dr Sondermann is a member of a defined contribution scheme. Mr Hind and Mr Rubright are also members of defined contribution schemes, as was Mr Dobson until his retirement.

## *(v) Other benefits*

Other benefits for executive directors comprise a car and payment of its operating expenses and fuel, or car allowance; private health care; long-term disability insurance; and pensions as detailed above.

# Remuneration report continued

## Service contracts

In accordance with general market practice, it is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. However, it may be necessary occasionally to offer longer initial notice periods to attract new directors, provided that the notice period shall reduce to one year after the initial period.

Service contracts between the Company (or other companies in the Group\*) and individuals who served as executive directors at any time during the year are summarised below:

Director	Date of service contract	Notice period
J R Atkinson	11 October 1999	12 months
T Dobson	10 April 1995	12 months
J W G Hind	16 May 2003	12 months
R M Rubright	8 August 1977 (modified by a memorandum of employment dated 12 May 2003)	12 months
Dr W Sondermann	12 February 1998 (modified by a memorandum of employment dated 5 March 2004)	12 months

\* Mr Rubright's service contract is with Hayward Baker Inc.  
Dr Sondermann's service contract is with Keller Grundbau GmbH.

In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic annual salary plus the fair value of benefits to which the directors are contractually entitled for the unexpired portion of the notice period. The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service agreement of any executive director.

During the year, £23,000 was paid to Mr K Kirsch and £17,000 was paid to Mr M W C Martin, both former directors of the Company, for consultancy services provided to Group companies. Since his retirement as a director of the Company on 31 March 2004, Mr T Dobson was paid £62,000 in the year for consultancy services provided to Group companies. Mr R J T Ewen, a former director of the Company, was paid £179,000 as an employee until the expiry of his 12 months' notice period on 11 December 2004.

The board may allow executive directors to accept external appointments, provided that the Company retains any related remuneration. In accordance with the Combined Code, the board will not agree to a full-time executive taking on more than one non-executive directorship in a FTSE 100 company, nor the chairmanship of such a company. None of the executive directors had external appointments during the year.

## Non-executive directors

All non-executive directors have specific terms of engagement, the dates of which are set out below. For non-executive directors appointed before 1 October 2003, the initial appointment period is 12 months and thereafter the appointment is subject to three months' notice by either party. All subsequent appointments are for an initial three-year period and thereafter subject to review by the Nomination Committee, unless terminated by either party on three months' notice. There are no provisions for compensation payable in the event of early termination.

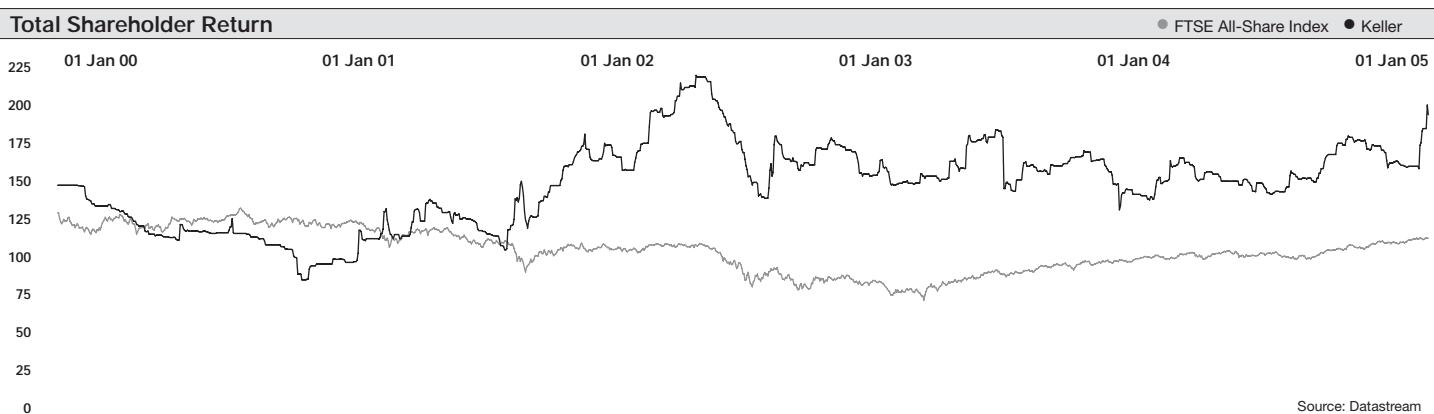
Director	Date of engagement letter
Dr K Bond	24 November 2003
E G F Brown	18 January 2002
P J Lopez Jimenez	21 January 2003
K F Payne	11 June 1999
R T Scholes	8 February 2002
Dr J M West	8 June 1998

The determination of the non-executive directors' remuneration, including that of the chairman, has been delegated by the board to the executive directors, within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The fees paid to non-executive directors in the year, shown on page 39, are inclusive of the additional work performed for the Company in respect of membership of the board committees. From 1 January 2005, the chairmen of the remuneration and audit committees will receive an annual payment for chairing these committees, in addition to their basic fees as non-executive directors. Non-executive directors cannot participate in any of the Company's short- or long-term incentive arrangements.

# Remuneration report continued

## Relative performance

The following graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE All-Share Index. This index has been selected because it best reflects the Company's international nature and size. The graph looks at the value, by the end of 2004, of £100 invested in Keller on 31 December 1999 compared with the value of £100 invested in the FTSE All-Share Index.



## Audited information

### Directors' emoluments for the year ended 31 December 2004

	Basic salary 2004 £000	Fees 2004 £000	Benefits 2004 £000	Annual bonus 2004 £000	Total emoluments 2004 £000	Total emoluments 2003 £000
<b>Executive</b>						
J R Atkinson	250	-	20	75	345	253
T Dobson	60	-	13	-	73	299
J W G Hind	175	-	11	53	239	89
R M Rubright	186	-	9	65	260	231
Dr W Sondermann	167	-	13	55	235	76
<b>Non-executive</b>						
Dr K Bond	-	25	-	-	25	4
E G F Brown	-	25	-	-	25	24
P Lopez Jimenez	-	25	-	-	25	23
K F Payne	-	25	-	-	25	24
R T Scholes	-	25	-	-	25	24
Dr J M West	-	73	16	-	89	86
	<b>838</b>	<b>198</b>	<b>82</b>	<b>248</b>	<b>1,366</b>	<b>1,133</b>

The figures above relating to Mr Dobson are for the three months ended 31 March 2004 when he retired as a director and include, under benefits, the cost of his accommodation in the UK for that period.

Included in the above are fees amounting to £25,000 paid to G. Brown Associates Limited in respect of services provided by Mr Brown and fees amounting to £25,000 paid to Fapindus, S.L. in respect of services provided by Mr Lopez Jimenez.

A maximum annual cash bonus of 50% of basic annual salary was set for the year ended 31 December 2004. The 2004 bonus targets for Mr Atkinson and Mr Hind were linked to the achievement of Group EPS, PBT and average net debt targets (up to 40% of salary) and to personal, task-based objectives (up to 10% of salary). The 2004 bonus targets for Mr Rubright and Dr Sondermann were linked to the achievement of Group EPS and PBT targets, divisional operating profit and average net debt targets (up to 40% of salary) and personal, task-based objectives (up to 10% of salary).

The baselines for the 2004 Group financial performance targets at which no bonus was payable (as adjusted for actual 2004 exchange rates) were PBT of £25.7m, EPS of 21.1p and average net debt of £78m. The financial performance targets attracting maximum bonus are considered commercially sensitive and are not, therefore, disclosed.

# Remuneration report continued

## Directors' shareholdings

The interests in the issued ordinary share capital of the Company of directors holding office at the year end were:

Director	At 31 December 2004 Ordinary shares	At 31 December 2003 Ordinary shares
J R Atkinson	43,449	42,608
E G F Brown	5,000	–
P Lopez Jimenez*	6,541,985	4,959,000
K Payne	10,739	10,739
R M Rubright	40,000	40,000
R T Scholes	5,000	5,000
Dr W Sondermann	20,535	18,525
Dr J M West	1,968,000	1,948,000

\* Shares are registered in the name of Terratest Técnicas Especiales S.A. (Terratest), a connected person of Mr Lopez Jimenez. There have been no changes in directors' shareholdings between the end of the financial year and 4 March 2005.

Any ordinary shares required to fulfil entitlements under the Deferred Annual Bonus Scheme (DAB Scheme) are provided by the Keller Group plc Employee Benefit Trust (the Trust). As beneficiaries under the Trust, the directors are deemed to be interested in the shares held by the Trust which, at 31 December 2004, amounted to 73,977 ordinary shares (2003: 98,878).

## Directors' pension rights

In 2004, a pension of £142,000 was paid to Dr West, who retired in 1997 under the Keller Group Pension Scheme.

Company pension contributions for directors to defined contribution schemes were as follows:

Director	2004 £000
T Dobson	4
J W G Hind	21
R M Rubright	7
W Sondermann	7

In 2003, four directors were members of defined contribution schemes, with company pension contributions totalling £34,000.

The changes during the year in the accrued pension entitlements of Mr Atkinson under the Keller Group Pension Scheme and Dr Sondermann under the defined benefit pension arrangements operated by Keller Grundbau GmbH are shown in the table below. The accrued pension at the end of the year shown is that which would be paid annually on retirement, based on service to the end of the year.

Director	Transfer value of accrued benefit at beginning of year £000	Transfer value of accrued benefit at end of year £000	Increase in transfer value during the year less member contributions £000	Accrued pension at end of year £000	Increase in accrued pension including inflation £000	Increase in accrued pension excluding inflation £000	Transfer value of increase in accrued pension excluding inflation less member contributions £000
J R Atkinson	229	270	39	48	4	3	16
Dr W Sondermann	36	39	2	3	0.2	0.2	2

# Remuneration report continued

## Directors' interests in long-term incentive plans 2001 Plans and Performance Share Plan

Name of Director	Options held at 1 January 2004	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2004	Exercise price	Dates from which exercisable	Expiry date
<b>J R Atkinson</b>								
Unapproved Plan								
14 May 2001	25,000	-	-	-	25,000	231.5p	14/05/04	13/05/11
13 March 2002	45,511	-	-	-	45,511	332.0p	13/03/05	12/03/12
13 March 2003	72,521	-	-	-	72,521	251.0p	13/03/06	12/03/13
Approved Plan								
13 March 2002	4,489	-	-	-	4,489	332.0p	13/03/05	12/03/12
13 March 2003	2,479	-	-	-	2,479	251.0p	13/03/06	12/03/13
Performance Share Plan*	-	37,500	-	-	37,500	100.0p*	25/06/07	24/06/14
<b>T Dobson</b>								
Unapproved Plan								
14 May 2001	50,000	-	-	-	50,000	231.5p	14/05/04	13/05/11
13 March 2002	75,000	-	-	-	75,000	332.0p	13/03/05	12/03/12
<b>J W G Hind</b>								
Unapproved Plan								
29 August 2003	37,756	-	-	-	37,756	245.0p	29/08/06	28/08/13
Approved Plan								
29 August 2003	12,244	-	-	-	12,244	245.0p	29/08/06	28/08/13
Performance Share Plan*	-	25,000	-	-	25,000	100.0p*	25/06/07	24/06/14
<b>R M Rubright</b>								
Unapproved Plan								
14 May 2001	20,000	-	-	-	20,000	231.5p	14/05/04	13/05/11
13 March 2002	50,000	-	-	-	50,000	332.0p	13/03/05	12/03/12
13 March 2003	50,000	-	-	-	50,000	251.0p	13/03/06	12/03/13
Performance Share Plan*	-	25,000	-	-	25,000	100.0p*	25/06/07	24/06/14
<b>Dr W Sondermann</b>								
Unapproved Plan								
14 May 2001	15,000	-	-	-	15,000	231.5p	14/05/04	13/05/11
13 March 2002	20,000	-	-	-	20,000	332.0p	13/03/05	12/03/12
13 March 2003	25,000	-	-	-	25,000	251.0p	13/03/06	12/03/13
Performance Share Plan*	-	25,000	-	-	25,000	100.0p*	25/06/07	24/06/14

\* All awards under the Performance Share Plan were granted on 25 June 2004 and have an exercise price of 100.0p per exercise. The market value of the shares on that date was 215.0p.

The options granted on 14 May 2001 under the 2001 Plans became exercisable on 14 May 2004. This reflects a real annual average growth in EPS over the three-year period ended 31 December 2003 of 6.8%, compared with a target of 4% under the 2001 Plans.

The market value of the shares at 31 December 2004 was 239.0p and the range during the year was 213.5p to 273.5p.

There have been no variations to the terms and conditions or performance criteria for share options or performance share awards during the financial year.

# Remuneration report continued

## **DAB Scheme**

The DAB scheme was a bonus-related long-term incentive scheme which the Company operated for the last time in respect of the 1998 annual bonus.

Under the DAB Scheme, participants were required to defer 50% of their performance-related annual bonus in the form of shares in the Company (Deferred Shares) for a period of three years. At the end of the period, matched shares were awarded up to a maximum of two matched shares for every one share deferred, depending on performance against a combination of EPS growth and relative TSR measures.

Once the shares have unconditionally vested, participants have the option of selling their deferred and matched shares or earning additional matched shares at the rate of one for every five shares that are retained for a further two-year period. On 17 May 2004, additional matched shares vested to directors as follows: Mr Atkinson 1,409 shares, Mr Dobson 4,314 shares and Dr Sondermann 2,010 shares. The market value of the shares on the date of vesting was 236.0p.

Potential additional matched shares vesting in March 2005 are: Mr Atkinson 1,480 shares, Mr Dobson 3,263 shares and Dr Sondermann 1,695 shares.

On behalf of the board

## **Gerry Brown**

Chairman  
Remuneration Committee  
4 March 2005

# Corporate governance

The Company is committed to maintaining high standards of corporate governance. The board recognises that it is accountable to the Company's shareholders for corporate governance and this statement describes how the Company has applied the principles of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003. Throughout the year to 31 December 2004, the Company has complied with the provisions of the revised Combined Code.

## The board

The Group is controlled through its board of directors. The board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable those objectives to be met. The board, which meets at least nine times a year, has a schedule of matters reserved for its approval.

Specific responsibilities of the board include: setting Group strategy and approving the annual budget; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; reviewing the Group's systems of internal controls and risk management; ensuring that appropriate management development and succession plans are in place; reviewing the health and safety performance of the Group; approving appointments to the board; and approving policies relating to directors' remuneration and the severance of directors' contracts.

Board papers and other relevant information are circulated to the directors in a timely manner in preparation for board and committee meetings. This information is supplemented by information specifically requested by the directors from time to time.

## The roles of the chairman and chief executive

There is a clear division of responsibilities between Dr West as non-executive chairman and Mr Atkinson who, as chief executive, is the director ultimately responsible for the running of the Group's business.

The chairman is responsible for the following matters:

- Leadership of the board:
  - Ensuring appropriate board composition
  - Ensuring effective board processes
  - Setting the board's agenda
  - Ensuring that directors are properly briefed in order to take a full and constructive part in board and board committee discussions
  - Ensuring effective communication with shareholders
  - Ensuring constructive relations between executive and non-executive directors.

The chief executive is responsible for the following matters:

- Formulating strategy proposals for the board
- Formulating annual and medium-term plans charting how this strategy will be delivered
- Apprising the board of all matters which materially affect the Group and its performance, including any significantly underperforming business activities
- Leadership of executive management to enable the Group's businesses to deliver the requirements of shareholders:
  - Ensuring adequate, well motivated and incentivised management resources
  - Ensuring succession planning
  - Ensuring appropriate business processes.

## Directors and directors' independence

The board currently comprises the chairman, five non-executive directors and four executive directors. The names of the directors at the date of this report, together with their biographical details, are set out on pages 30 and 31. All these directors served throughout the year. In compliance with the Combined Code, the board included at least two independent, non-executive directors throughout the year.

The board considers all the non-executive directors, with the exception of Dr West and Mr Lopez Jimenez, to be independent of management. Dr West was chief executive from 1982 to 1995 and is not, therefore, considered to be independent of management. Mr Lopez Jimenez is associated with Terratest Tecnicas Especiales S.A. (Terratest), a 49% shareholder in Keller-Terra S.L. and a 10% shareholder in Keller Group plc. Whilst the board considers Mr Lopez Jimenez to be independent in character and judgement, he is not deemed to be independent of management under the Combined Code, in view of the size of Terratest's shareholding in Keller Group plc.

The non-executive directors constructively challenge and help develop proposals on strategy and bring strong independent judgement, knowledge and experience to the board's deliberations. Mr Payne is the senior independent director.

There is an agreed procedure for individual directors to obtain independent professional advice and all directors have unrestricted access to the company secretary and chairman. The company secretary is responsible for advising the board, through the chairman, on all governance matters.

The chairman has no other significant professional commitments.

# Corporate governance continued

## Professional development

On appointment, the directors are provided with information about the Group, the role of the board and the matters reserved for its decision, the terms of reference and membership of the board committees and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives to develop the directors' understanding of the business.

Throughout their period of office, directors are continually updated on the Group's business, its markets, corporate social responsibility matters and other changes affecting the Group and the industry in which it operates, including changes to the legal and governance environment and the obligations on themselves as directors.

## Performance evaluation and re-election

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors.

With the assistance of an independent adviser, the chairman has developed a questionnaire which provides a framework for the evaluation of the board's performance and provides the chairman with a means of making year-on-year comparisons. The questionnaire includes questions on the board's structure, functionality and objectives; the frequency, structure, content and administration of board meetings; exposure to management and site visits; corporate governance; and communication with financial markets. Each director completes a questionnaire, from which the independent adviser collates the results and presents a report, with recommendations. This report is discussed at a subsequent board meeting, where actions to address any identified weaknesses are agreed.

The Audit and Remuneration Committees have developed a two-part questionnaire which forms the basis of their annual performance evaluation. The first part is a quantitative evaluation of ten factors which are considered likely to contribute to the committee's effectiveness. The second part is an evaluation of how well the committee has complied with its terms of reference. The questionnaires are discussed and completed at a meeting of the committees, where goals are identified and agreed and reported back to the next meeting of the board.

The chairman and the senior independent director have identified five criteria against which they annually assess the performance of the other directors. The chairman assesses the performance of the senior independent director using the same criteria. Led by the senior independent director, the non-executive directors meet annually, without the presence of the chairman, to conduct a performance evaluation of the chairman, using a similar method.

All directors are subject to election by shareholders at the first Annual General Meeting following their appointment and, subject to satisfactory performance evaluation, to re-election thereafter at intervals of no more than three years.

## Relations with shareholders

Where practicable throughout the year, with the exception of closed periods, the Company meets with and makes presentations to institutional investors. These include meetings following the announcement of the annual and interim results with the Company's largest institutional shareholders on an individual basis. The senior independent director is available on request to meet with shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director have failed to resolve, or for which such contact is inappropriate. All major shareholders have the opportunity on request to meet new non-executive directors on appointment. On a regular basis, the board is apprised of the views of the investment community through the circulation of investor perception surveys, brokers' research notes and feedback from analysts.

The Annual General Meeting is normally attended by all the directors and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended. The Notice of the Annual General Meeting, detailing all proposed resolutions, is posted to shareholders at least 20 working days prior to the meeting.

The Group maintains a corporate website [www.keller.co.uk](http://www.keller.co.uk) containing a wide range of information of interest to institutional and private investors.

## Board committees

The number of full board meetings and committee meetings attended by each director during the year was as follows:

	Scheduled board meetings	Remuneration Committee meetings	Audit Committee meetings
J M West (chairman)	9 (9)	n/a	n/a
J R Atkinson (chief executive)	9 (9)	n/a	n/a
T Dobson (retired 31.3.04)	1 (1)	n/a	n/a
J W G Hind (finance director)	9 (9)	n/a	n/a
R M Rubright (executive director)	9 (9)	n/a	n/a
W Sondermann (executive director)	9 (9)	n/a	n/a
G Brown (non-executive director)	8 (9)	4 (4)	3 (4)
K Bond (non-executive director)	9 (9)	4 (4)	4 (4)
P J Lopez Jimenez (non-executive director)	5 (9)	n/a	n/a
K Payne (non-executive director)	9 (9)	4 (4)	4 (4)
R T Scholes (non-executive director)	9 (9)	4 (4)	4 (4)

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a board member.

## Committee terms of reference

The terms of reference for the Remuneration, Audit and Nomination Committees are kept under regular review and are available on the Company's website.

## **Remuneration Committee**

The Remuneration Committee is chaired by Mr Brown. The other members during the year, all of whom are independent non-executive directors, are shown on page 35.

This Committee is responsible for agreeing with the board the framework and policy for the remuneration of the Group's executive management and for determining the remuneration packages of the executive directors. The directors' remuneration report is set out on pages 35 to 42.

## **Nomination Committee**

The Nomination Committee is chaired by Dr West, except if the Committee is dealing with succession to the chairmanship of the board. The other members during the year were Mr Atkinson, Dr Bond, Mr Brown, Mr Payne and Mr Scholes. The Nomination Committee monitors the composition and balance of the board and recommends to the board the appointment of new directors. Where appointments to the board are under consideration, the Committee will normally employ external search consultants, except in respect of operational roles for which internal candidates have already been identified.

Following changes in the composition of the board at the end of 2003 and the appointment of Mr Atkinson to succeed Mr Dobson as chief executive on 1 April 2004, the directors determined that the size of the board and its balance of skills and experience met the needs of the business for the time being and, accordingly, the Committee did not meet during 2004.

## **Audit Committee**

Dr Bond, Mr Brown, Mr Payne and Mr Scholes, all of whom are independent non-executive directors, were members of the Committee throughout the year. The Committee is, and was throughout the year, chaired by Mr Payne. The board has satisfied itself that at least one member of the Committee has recent and relevant financial experience.

This Committee meets at least three times a year and the Company's auditors attend at least two of these meetings. At least once a year, the Committee meets privately with the external auditors. The Committee assists the board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up-to-date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position. It also reviews annually the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group.

In 2004, the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements and interim results statement prior to board approval and reviewing the external auditors' reports thereon;
- reviewing the Group's trading update announcements prior to release;
- reviewing the independence of the external auditors; and reviewing and approving the audit fee;
- reviewing the external auditors' strategy for the audit of the Group's accounts;
- reviewing an annual report on the Group's system of internal control and its effectiveness and receiving regular updates on key risk areas of financial control;
- reviewing the potential impact on the Group's financial statements of proposed international financial reporting standards; and
- reviewing the need for an internal audit function.

In considering the need for an internal audit function, the Committee took account of the Group's broad geographic spread and cultural diversity and recognised that the Group's key risks lie in its tendering processes and in the operational controls over the performance of work, which a traditional, finance-focused internal audit function would not be capable of addressing. The Committee concluded that a structured programme of independent reviews, combining internal "peer" and outsourced reviews covering tendering, operational processes and internal financial controls, should be continued and developed. The Committee will review these arrangements annually.

The Committee also monitors the Group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

Once a year, the Committee evaluates the external auditors. This evaluation focuses on: the calibre of the audit firm (including reputation, presence in the industry, size, resources and geographic spread); its quality control processes; the quality of the team assigned to the audit; the audit scope, fee and audit communications; and the governance and independence of the audit firm.

Any work awarded to the external auditors with a value in excess of £50,000, other than audit and tax compliance, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements on page 55.

## **Internal control**

The board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee, the board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the board and accords with the guidance.

The principal elements of the internal control framework are as follows:

### **(a) Contract appraisal**

A risk analysis covering technical, operational and financial issues is performed as part of the bidding process. The bidding of contracts is approved at the appropriate level. The performance of contracts is monitored by each business unit on a weekly basis.

### **(b) Budgeting and forecasting**

There is a comprehensive budgeting system with an annual budget approved by the directors. This budget includes monthly profit and loss accounts, balance sheets and cash flows. Forecasts for the full year are updated during the year. In addition, detailed quarterly forecasts are prepared for the two subsequent years.

### **(c) Financial reporting**

Detailed monthly management accounts are prepared which compare profit and loss accounts, balance sheets, cash flows and other information with budget and prior year, and significant variances are investigated.

### **(d) Cash control**

Each business reports its cash position weekly. Regular cash forecasts are prepared to monitor the Group's short and medium-term cash positions and to control immediate borrowing requirements.

### **(e) Investments and capital expenditure**

All significant investment decisions, including capital expenditure, are referred to the appropriate divisional or Group authority level.

A process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the board.

Management is responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks may be associated with a variety of internal or external sources including control breakdowns, disruptions in information systems, markets and competition, natural catastrophe and regulatory requirements. The identified risks, and the controls in place to manage them, are subject to continual reassessment. The Audit Committee reviews this process once a year.

In addition, once a year, responsible managers are asked to confirm the adequacy of their systems of internal financial and non-financial controls; and their compliance with Group policies, local laws and regulations; and to report any control weaknesses identified in the past year.

The chief executive reports to the board on significant changes in the business and the external environment that affect significant risks. The finance director provides the board with monthly financial information which includes key performance and risk indicators.

## **Directors' responsibilities in relation to the financial statements**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Report of the independent auditors

to the members of Keller Group plc

We have audited the financial statements on pages 48 to 71. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 46, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 43 to 46 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

## KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London EC4Y 8BB

4 March 2005

# Consolidated profit and loss account

for the year ended 31 December 2004

	Note	2004 Before amortisation of intangibles £000	2004 Amortisation of intangibles (note 2) £000	2004 Total £000	2003 Before exceptional items and amortisation of intangibles £000	2003 Exceptional items and amortisation of intangibles (note 2) £000	2003 Total £000
Turnover	2	595,856	–	595,856	567,505	–	567,505
Operating costs*	3	(562,107)	(2,964)	(565,071)	(534,667)	(13,881)	(548,548)
Operating profit	2	33,749	(2,964)	30,785	32,838	(13,881)	18,957
Net interest payable	5	(4,147)	–	(4,147)	(4,151)	–	(4,151)
<b>Profit on ordinary activities before taxation</b>		<b>29,602</b>	<b>(2,964)</b>	<b>26,638</b>	<b>28,687</b>	<b>(13,881)</b>	<b>14,806</b>
Taxation	6	(11,130)	–	(11,130)	(11,211)	510	(10,701)
<b>Profit on ordinary activities after taxation</b>		<b>18,472</b>	<b>(2,964)</b>	<b>15,508</b>	<b>17,476</b>	<b>(13,371)</b>	<b>4,105</b>
Equity minority interests		(2,131)	–	(2,131)	(1,846)	–	(1,846)
<b>Profit for the financial year</b>		<b>16,341</b>	<b>(2,964)</b>	<b>13,377</b>	<b>15,630</b>	<b>(13,371)</b>	<b>2,259</b>
Dividends paid and proposed	7	(7,121)	–	(7,121)	(6,768)	–	(6,768)
<b>Retained profit/(loss) for the financial year</b>	20	<b>9,220</b>	<b>(2,964)</b>	<b>6,256</b>	<b>8,862</b>	<b>(13,371)</b>	<b>(4,509)</b>
Basic earnings per share	8			20.5p			3.5p
Diluted earnings per share	8			20.5p			3.5p
Adjusted earnings per share**	8	25.1p			24.1p		
Dividend per share	7			10.9p			10.4p

\* Operating costs in 2003 include exceptional items of £10,444,000.

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

The Group's 2004 results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in the year.

The difference between the reported and historical cost profits for each of the years reported above is not material.

# Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
<b>Profit for the financial year</b>		<b>13,377</b>	<b>2,259</b>
Currency translation differences on overseas investments	20	(2,695)	(136)
<b>Total recognised gains and losses relating to the year</b>		<b>10,682</b>	<b>2,123</b>

The notes on pages 52 to 71 form part of these accounts.

# Consolidated balance sheet

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Positive goodwill	9	57,771	57,493
Negative goodwill	9	(92)	(734)
		57,679	56,759
Other intangible assets	10	211	287
Intangible assets		57,890	57,046
Tangible assets	11	80,937	82,169
		138,827	139,215
<b>Current assets</b>			
Stocks	13	24,319	16,885
Debtors	14	144,518	137,855
Cash at bank and in hand	25	16,416	21,511
		185,253	176,251
Creditors: amounts falling due within one year	15	(140,848)	(147,047)
Net current assets		44,405	29,204
Total assets less current liabilities		183,232	168,419
Creditors: amounts falling due after more than one year	16	(68,161)	(58,438)
Provisions for liabilities and charges	17	(13,644)	(12,358)
Net assets	2	101,427	97,623
<b>Capital and reserves</b>			
Called up share capital	19	6,536	6,507
Share capital to be issued	19	-	680
Share premium account	20	36,027	35,374
Capital redemption reserve	20	7,629	7,629
Profit and loss account	20	45,624	41,849
Equity shareholders' funds	21	95,816	92,039
Equity minority interests		5,611	5,584
		101,427	97,623

These accounts were approved by the board of directors on 4 March 2005 and signed on its behalf by:

J M West Chairman  
J W G Hind Finance Director

# Consolidated cash flow statement

for the year ended 31 December 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
<b>Net cash inflow from operating activities</b>	22		33,577		39,951
<b>Returns on investment and servicing of finance</b>					
Interest received		339		259	
Interest paid		(4,281)		(4,300)	
Interest element of finance lease rental payments		(87)		(222)	
Payments to minority interests		(2,473)		(690)	
			(6,502)		(4,953)
<b>Taxation</b>					
UK corporation tax received/(paid)		461		(608)	
Overseas tax paid		(7,800)		(12,187)	
			(7,339)		(12,795)
<b>Capital expenditure</b>					
Purchase of intangible fixed assets		(15)		(48)	
Purchase of tangible fixed assets		(13,887)		(16,670)	
Sale of tangible fixed assets		2,063		3,300	
			(11,839)		(13,418)
<b>Acquisitions and disposals</b>					
Acquisition of subsidiary undertakings		(3,422)		421	
			(3,422)		421
<b>Equity dividends paid</b>			(6,872)		(6,534)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>			(2,397)		2,672
<b>Management of liquid resources</b>					
Repayments from short term bank deposits			1,002		885
<b>Financing</b>					
Issue of new shares		15		90	
New bank and other loans drawn		55,982		5,640	
Repayment of bank loans and loan notes		(52,498)		(11,552)	
Sale and leaseback transactions		229		377	
Capital element of finance lease rental payments		(602)		(1,547)	
<b>Net cash inflow/(outflow) from financing</b>			3,126		(6,992)
<b>Increase/(decrease) in cash in the year</b>	23		1,731		(3,435)

The notes on pages 52 to 71 form part of these accounts.

# Company balance sheet

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Investments	12	53,858	44,486
<b>Current assets</b>			
Debtors*	14	94,195	87,498
Cash at bank and in hand		-	247
		94,195	87,745
Creditors: amounts falling due within one year	15	(15,462)	(23,950)
<b>Net current assets*</b>		<b>78,733</b>	<b>63,795</b>
<b>Total assets less current liabilities</b>		<b>132,591</b>	<b>108,281</b>
Creditors: amounts falling due after more than one year	16	(68,746)	(44,544)
<b>Net assets</b>		<b>63,845</b>	<b>63,737</b>
<b>Capital and reserves</b>			
Called up share capital	19	6,536	6,507
Share capital to be issued	19	-	680
Share premium account	20	36,027	35,374
Capital redemption reserve	20	7,629	7,629
Profit and loss account	20	13,653	13,547
<b>Equity shareholders' funds</b>		<b>63,845</b>	<b>63,737</b>

\* Debtors and net current assets include debtors recoverable after more than one year of £78,806,000 (2003: £65,784,000).

These accounts were approved by the board of directors on 4 March 2005 and signed on its behalf by:

**J M West** Chairman  
**J W G Hind** Finance Director

The notes on pages 52 to 71 form part of these accounts.

# Notes to the accounts

## 1 Principal accounting policies

### (a) Basis of accounting

The accounts of the Group have been prepared under the historical cost convention in accordance with applicable accounting standards.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

### (b) Basis of consolidation

The Group accounts consolidate the accounts of the parent company and its subsidiary undertakings made up to 31 December each year. Where subsidiary undertakings are acquired or sold during the year, the accounts include the results for the part of the year for which they were subsidiary undertakings using the acquisition method of accounting unless otherwise stated.

The Company has taken advantage of the exemption in Section 230 of the Companies Act 1985 and has not produced its own profit and loss account. Of the consolidated profit for the financial year of £13,377,000 a profit of £7,013,000 has been dealt with in the financial statements of Keller Group plc.

### (c) Turnover

Turnover represents the valuation of work done on contracts performed during the year on behalf of clients or the invoiced value of goods and services charged to clients.

These valuations are based upon estimates of the final expected outcome of contracts and the proportion of work which has been completed.

### (d) Contract results

In the nature of the Group's business the results for the year include adjustments to the outcome of contracts, including joint arrangements, completed in previous years arising from:

- (i) claims by customers or third parties in respect of work carried out where full provision is made in the year in which the Group becomes aware that a claim may arise;
- (ii) claims on customers or third parties for variations to the original contract which are not taken to profit until the outcome is reasonably certain; and
- (iii) costs of insurance arrangements which can be adjusted retrospectively based on claims experience.

Where it is reasonably foreseen that a loss will arise on a contract, full provision for this loss is made in the year in which the Group becomes aware that a loss may arise.

### (e) Joint arrangements

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of joint arrangements that are not entities as defined by FRS 9. The Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements covering the joint arrangements.

### (f) Depreciation

Depreciation is not provided on freehold land.

Depreciation is provided to write off the cost less the estimated residual value of assets by reference to their estimated useful lives using the straight line method. The rates of depreciation used are:

Buildings	2%
Long life plant and equipment	8.33%
Short life plant and equipment	12.5%
Motor vehicles	25%
Computers	33.33%

Leased properties are amortised by equal instalments over the period of the lease or 50 years, whichever is the shorter.

### (g) Research and development

Expenditure on research and development is written off against trading profits as incurred.

### (h) Capital work in progress

Capital work in progress represents expenditure on fixed assets in the course of construction. Transfers are made to other fixed asset categories when the assets are available for use.

### (i) Stocks

Stocks are valued at the lower of cost and estimated net realisable value with due allowance being made for obsolete or slow moving items.

# Notes to the accounts continued

## 1 Principal accounting policies continued

### (j) Amounts recoverable on contracts

Amounts recoverable on contracts comprises work completed, or measurable parts thereof, not yet invoiced to clients, and is stated after making due allowance for irrecoverable amounts.

### (k) Leases

Fixed assets acquired under finance leases are capitalised in the balance sheet at fair value and depreciated in accordance with the Group's accounting policy. The capital element of the leasing commitment is shown as "obligations under finance leases". The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, which reduces the outstanding obligation.

Rental costs in respect of operating leases are charged to the profit and loss account as incurred.

### (l) Deferred taxation

Except where otherwise required by accounting standards, full provision, without discounting, is made for all timing differences which have arisen but not reversed at the balance sheet date.

### (m) Pensions

The expected cost of providing pensions on defined benefit schemes is recognised on a systematic and rational basis over the expected service lives of current employees.

Pension costs in respect of defined contribution schemes are recognised as incurred.

### (n) Goodwill and intangibles

Positive goodwill arising on consolidation, representing the difference between the fair value of the purchase consideration and the fair value of the net assets of the subsidiary undertaking at the date of acquisition, is capitalised as an intangible fixed asset and charged to the profit and loss account over the useful economic life of the asset, which is considered to be 20 years.

Negative goodwill, where the fair value of the net assets is greater than the fair value of the purchase consideration of the subsidiary undertaking at the date of acquisition, is recognised separately on the balance sheet below positive goodwill. It is credited to the profit and loss account over a period in which the non monetary assets (usually fixed assets) are depreciated or sold, which is usually considered to be five years.

Positive goodwill and negative goodwill arising prior to 1 January 1998 were taken directly to reserves in the year in which they arose. Such positive goodwill and negative goodwill have not been reinstated on the balance sheet. This positive goodwill or negative goodwill would be charged or credited to the profit and loss account on a subsequent disposal of the business to which they relate.

Intangible assets, other than goodwill, which are purchased, such as licences, patents and trademarks are capitalised and charged to the profit and loss account over their useful economic lives, which is usually considered to be five years. Internally generated intangible assets are not capitalised.

### (o) Foreign currencies

Balance sheet items in foreign currencies are translated into sterling at closing rates of exchange at the balance sheet date. However, if amounts receivable and payable in foreign currencies are covered by a forward contract, the contract rate of exchange is used for translation. Profit and loss accounts and cash flows of overseas subsidiary undertakings are translated into sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation of opening net assets and profit and loss accounts at closing rates of exchange are dealt with as movements on reserves. All other exchange differences are charged to the profit and loss account. The exchange rates used in respect of principal currencies are:

	2004	2003
US dollar: average for year	1.83	1.64
US dollar: year end	1.93	1.78
Australian dollar: average for year	2.49	2.52
Australian dollar: year end	2.47	2.38
Euro: average for year	1.47	1.45
Euro: year end	1.41	1.42





# Notes to the accounts continued

## 5 Net interest payable

	2004 £000	2003 £000
Interest payable on bank loans and overdrafts	3,600	3,903
Interest on other loans	800	286
Interest payable on finance leases	87	222
	4,487	4,411
Interest receivable	(340)	(260)
	4,147	4,151

## 6 Taxation

The taxation charge comprises:

	2004 £000	2003 £000
Current tax:		
UK corporation tax on profits of the period	-	-
Overseas tax	10,480	8,990
Adjustments in respect of previous periods	(850)	(423)
<b>Total current tax</b>	<b>9,630</b>	<b>8,567</b>
Deferred tax:		
Current year	721	1,901
Prior year	779	233
<b>Total deferred tax (see note 17)</b>	<b>1,500</b>	<b>2,134</b>
	<b>11,130</b>	<b>10,701</b>
Factors affecting the tax charge for the year.		
<b>Profit on ordinary activities before taxation</b>	<b>26,638</b>	<b>14,806</b>
Profit on ordinary activities multiplied by the UK standard corporation tax rate of 30% (2003: 30%)	7,991	4,442
Effects of:		
Tax charged overseas at rates other than 30%	471	1,758
Capital allowances for the period in excess of depreciation	(1,429)	(821)
Tax losses carried forward	2,752	2,269
Permanent timing differences	534	3,036
Other timing differences	161	(1,694)
Adjustment to tax charge in respect of previous periods	(850)	(423)
<b>Current tax charge</b>	<b>9,630</b>	<b>8,567</b>

# Notes to the accounts continued

## 7 Dividends paid and proposed

Ordinary dividends on equity shares:

	2004 £000	2003 £000
Interim paid	2,350	2,246
Final proposed	4,771	4,522
	7,121	6,768

An interim ordinary dividend of 3.6p (2003: 3.45p) per share was paid on 1 November 2004. The final proposed ordinary dividend of 7.3p (2003: 6.95p) per share will be paid on 28 June 2005.

## 8 Earnings per share

Adjusted earnings per share of 25.1p (2003: 24.1p) is calculated based on profit after tax and minority interests before exceptional items and amortisation of intangibles of £16,341,000 (2003: £15,630,000) and the weighted average number of ordinary shares in issue during the year of 65,129,000 (2003: 64,918,500). Basic and diluted earnings per share are calculated as follows:

	2004 Basic £000	2004 Diluted £000	2003 Basic £000	2003 Diluted £000
Profit after tax and minority interests	13,377	13,377	2,259	2,259

	No. of shares 000s	No. of shares 000s	No. of shares 000s	No. of shares 000s
Weighted average of ordinary shares in issue during the year	65,129	65,129	64,919	64,919
Add: weighted average of shares under option during the year	–	1,678	–	1,550
Add: weighted average of own shares held	–	83	–	118
Subtract: number of shares assumed issued at fair value during the year	–	(1,509)	–	(1,484)
Adjusted weighted average of ordinary shares in issue	65,129	65,381	64,919	65,103

	Pence	Pence	Pence	Pence
Earnings per share	20.5	20.5	3.5	3.5

# Notes to the accounts continued

## 9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 2004	73,411	(1,387)	72,024
Additions	2,540	–	2,540
Adjustment	611	646	1,257
<b>At 31 December 2004</b>	<b>76,562</b>	<b>(741)</b>	<b>75,821</b>
Amortisation			
At 1 January 2004	15,918	(653)	15,265
Charge/(credit) for the year	2,920	(43)	2,877
Adjustment	(47)	47	–
<b>At 31 December 2004</b>	<b>18,791</b>	<b>(649)</b>	<b>18,142</b>
Net book value			
<b>At 31 December 2004</b>	<b>57,771</b>	<b>(92)</b>	<b>57,679</b>
Net book value			
At 31 December 2003	57,493	(734)	56,759

The adjustment to goodwill arose on the re-evaluation of the liability for deferred purchase consideration in respect of McKinney Drilling Company. This company was acquired in December 2002 and the consideration was in part based on its results in the two years ended 31 December 2004. The adjustment changed the goodwill arising on acquisition from negative to positive.

In January 2004 the Group acquired the remaining 50% of the share capital of Lime Column Method AB (LCM) for a cash consideration of £2,467,000. The transaction gave rise to additional goodwill of £2,530,000.

## 10 Other intangible assets

Group	Licences £000
Cost	
At 1 January 2004	751
Additions	15
Exchange differences	(3)
<b>At 31 December 2004</b>	<b>763</b>
Amortisation	
At 1 January 2004	464
Charge for the year	87
Exchange differences	1
<b>At 31 December 2004</b>	<b>552</b>
Net book value	
<b>At 31 December 2004</b>	<b>211</b>
Net book value	
At 31 December 2003	287

# Notes to the accounts continued

## 11 Tangible assets

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
<b>Cost</b>				
At 1 January 2004	23,922	128,051	1,038	153,011
Exchange differences	(575)	(3,878)	(23)	(4,476)
Additions	607	13,099	181	13,887
Disposals	(13)	(5,616)	-	(5,629)
Reclassification	47	1,009	(623)	433
<b>At 31 December 2004</b>	<b>23,988</b>	<b>132,665</b>	<b>573</b>	<b>157,226</b>
<b>Depreciation</b>				
At 1 January 2004	2,779	68,063	-	70,842
Exchange differences	(43)	(1,642)	-	(1,685)
Charge for the year	376	10,616	-	10,992
Disposals	(2)	(4,291)	-	(4,293)
Reclassification	50	383	-	433
<b>At 31 December 2004</b>	<b>3,160</b>	<b>73,129</b>	<b>-</b>	<b>76,289</b>
<b>Net book value</b>				
<b>At 31 December 2004</b>	<b>20,828</b>	<b>59,536</b>	<b>573</b>	<b>80,937</b>
<b>Net book value</b>				
At 31 December 2003	21,143	59,988	1,038	82,169

The net book value of tangible fixed assets includes the following amounts in respect of assets held under finance leases:

	2004 £000	2003 £000
Plant, machinery and vehicles	2,360	2,941

The net book value of land and buildings may be analysed as follows:

	2004 Cost £000	2004 Accumulated depreciation £000	2004 NBV £000	2003 NBV £000
Freehold land	6,444	-	6,444	6,953
Freehold buildings	16,190	(2,878)	13,312	13,068
Long leases	843	(229)	614	602
Short leases	511	(53)	458	520
	<b>23,988</b>	<b>(3,160)</b>	<b>20,828</b>	<b>21,143</b>

# Notes to the accounts **continued**

## 12 Investments

During the year the Company made further investments of £3,385,000 in Keller Holdings Limited and £6,000,000 in Makers Holdings Limited.

The Company's principal operating subsidiary undertakings at 31 December 2004 were as follows;

Subsidiary undertaking	Country of incorporation	Subsidiary undertaking	Country of incorporation
Keller Limited	Great Britain	Keller Turki Company Ltd	Saudi Arabia
Makers UK Limited	Great Britain	Geotechnical Engineering Contractor Ltd	Egypt
Keller Grundbau GmbH	Germany	Frankipile Australia Pty Ltd	Australia
Wannenwetsch GmbH Hochdruckwassertechnik	Germany	Vibropile (Aust) Pty Ltd	Australia
Keller Fondations Spéciales SAS	France	P. T. Frankipile Indonesia	Indonesia
Keller Grundbau Ges.mbh	Austria	Hayward Baker Inc	USA
Minages et Travaux Souterrains SA	Switzerland	Case Foundation Company	USA
Keller-Terra S.L.	Spain	Case Atlantic Company	USA
Lime Column Method AB	Sweden	McKinney Drilling Company	USA
Keller Polska Sp. z o.o.	Poland	Suncoast Post-Tension L.P.	USA
Keller Fondazioni S.r.l.	Italy	Seaboard Foundations Inc	USA
Keller (Malaysia) Sdn. Bhd.	Malaysia	Atlantic Equipment Company Inc	USA
Keller Foundations (South East Asia) Pte Ltd	Singapore	Large & Sons Inc	USA

Each of the above subsidiary undertakings is directly or indirectly wholly owned by the Company apart from Keller-Terra S.L. which is 51% owned by the Company, Wannenwetsch GmbH Hochdruckwassertechnik which is owned 84% by Keller Holding GmbH, Keller Turki Company Ltd which is owned 65% by Keller Grundbau GmbH and P. T. Frankipile Indonesia which is owned 60% by Franki Pacific Holdings Pty Ltd. Keller Limited and Keller-Terra S.L. are held directly by the Company. All other shareholdings are held by intermediate subsidiary undertakings. All companies are engaged in the principal activities of the Group, as defined in the directors' report.

Lime Column Method AB was 50% owned by Keller Holding GmbH throughout 2003. The Group purchased the other 50% in January 2004.

## 13 Stocks

Group	2004 £000	2003 £000
Raw materials and consumables	10,014	8,906
Work in progress	514	856
Finished goods	13,791	7,123
	24,319	16,885

# Notes to the accounts continued

## 14 Debtors

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Trade debtors	125,870	122,296	-	-
Amounts recoverable on contracts	7,369	5,220	-	-
Amounts owed by subsidiary undertakings	-	-	94,032	86,254
Other debtors	5,751	6,312	158	1,244
Prepayments	5,528	4,027	5	-
	<b>144,518</b>	<b>137,855</b>	<b>94,195</b>	<b>87,498</b>
Included in the above are amounts falling due after more than one year in respect of:				
Amounts owed by subsidiary undertakings	-	-	78,806	65,784
Other debtors	1,367	1,597	-	-
	<b>1,367</b>	<b>1,597</b>	<b>78,806</b>	<b>65,784</b>

## 15 Creditors: amounts falling due within one year

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Overdrafts	5,307	10,699	3,061	1,731
Bank loans	711	11,705	-	9,275
Loan notes	3,036	3,529	3,036	3,529
Obligations under finance leases	733	746	-	-
Trade creditors	67,035	63,417	-	-
Amounts owed to subsidiary undertakings	-	-	2,600	165
Corporation and withholding taxes payable	5,538	2,509	-	-
Other taxes and social security payable	7,753	8,364	-	-
Other creditors	32,063	26,436	1,525	4,423
Accruals	13,901	15,120	469	305
Dividends payable	4,771	4,522	4,771	4,522
	<b>140,848</b>	<b>147,047</b>	<b>15,462</b>	<b>23,950</b>

There are no fixed terms for the repayment of loan notes of the Company amounting to £3,036,000. Loan note holders have the right to require the Company to repay up to the whole of their holding on any date between 15 March and 14 April and between 15 September and 14 October in any year up to the final repayment date of 25 November 2006. The redemption of these loan notes has been assessed according to the earliest period during which loan note holders can demand redemption, namely 15 March to 14 April 2005.

Interest on these loan notes is charged at a rate for six month sterling deposits and at 31 December 2004 this interest rate was 4.53% (2003: 3.83%).

## Notes to the accounts continued

### 16 Creditors: amounts falling due after more than one year

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Bank loans	12,786	54,239	10,423	41,511
Other loans	52,919	–	52,919	–
Obligations under finance leases	883	1,257	–	–
Amounts owed to subsidiary undertakings	–	–	5,404	3,033
Other creditors	1,573	2,942	–	–
	<b>68,161</b>	<b>58,438</b>	<b>68,746</b>	<b>44,544</b>
Bank and other loans are repayable as follows:				
Between one and two years	1,143	12,064	–	11,804
Between two and five years	11,641	41,753	10,423	29,707
In five years or more	52,921	422	52,919	–
	<b>65,705</b>	<b>54,239</b>	<b>63,342</b>	<b>41,511</b>
Obligations under finance leases are repayable as follows:				
Between one and two years	333	520	–	–
Between two and five years	352	446	–	–
In five years or more	198	291	–	–
	<b>883</b>	<b>1,257</b>	<b>–</b>	<b>–</b>

Bank loans totalling £10,423,000 are due for repayment by December 2009. Interest is charged at a premium over LIBOR and at 31 December 2004 the weighted average interest rate was 5.2%.

Bank loans of £2,413,000 are repayable in quarterly instalments until September 2009.

Other loans due after more than one year comprise USD 30,000,000 (£15,236,000) unsecured notes due October 2011 and USD 70,000,000 (£37,683,000) unsecured notes due October 2014, issued in a private placement in October 2004. The notes bear interest at fixed rates of 5.05% and 5.48% respectively and are repayable in full on maturity.

USD 75,000,000 of the total fixed rate liability has been swapped into floating interest rates by means of a USD interest rate swap under which interest is paid at a fixed premium over the US inter-bank offer rate. The remaining USD 25,000,000 fixed rate liability has been swapped into a floating rate euro liability under which interest is paid at a fixed premium over EURIBOR. The weighted average interest rate on the notes at 31 December 2004 was 3.23%.

# Notes to the accounts continued

<b>17 Provisions for liabilities and charges</b>		
<b>Group</b>	<b>2004 £000</b>	<b>2003 £000</b>
Deferred taxation	5,957	4,872
Retirement provisions	7,142	6,967
Long service leave provisions	545	519
	<b>13,644</b>	<b>12,358</b>
<b>Deferred taxation</b>		
At 1 January	4,872	1,175
Exchange differences	(415)	(332)
Profit and loss account	1,500	2,134
Fair value adjustment relating to 2002 acquisition	-	1,895
At 31 December	<b>5,957</b>	<b>4,872</b>
The total net deferred taxation liability is as follows:		
Accelerated capital allowances	10,969	8,298
Other timing differences	(5,012)	(3,426)
	<b>5,957</b>	<b>4,872</b>
	<b>2004 £000</b>	<b>2003 £000</b>
<b>Retirement provisions (see note 29)</b>		
At 1 January	6,967	6,305
Exchange differences	36	514
Arising during the year	146	148
Utilised during the year	(7)	-
At 31 December	<b>7,142</b>	<b>6,967</b>
<b>Long service leave provisions</b>		
At 1 January	519	360
Exchange differences	(19)	75
Arising during the year	58	89
Utilised during the year	(13)	(5)
At 31 December	<b>545</b>	<b>519</b>

Employees in Australia are entitled to long service leave after ten years of service on the basis of  $8\frac{2}{3}$  weeks for every ten years of service. The provision has been calculated at current wage rates depending on length of service.

# Notes to the accounts continued

## 18 Treasury information

### *Interest rate and currency profile:*

The profile of the Group's financial assets and financial liabilities was as follows:

	2004 Sterling	2004 USD	2004 Euro	2004 AUD	2004 Total
Weighted average fixed debt interest rate	7.0%	4.4%	2.5%	–	n/a
Weighted average fixed debt period (years)	10	1	3.5	–	n/a

	£000	£000	£000	£000	£000
Fixed rate financial liabilities	(606)	(103)	(907)	–	(1,616)
Floating rate financial liabilities	(15,454)	(41,260)	(15,572)	(2,473)	(74,759)
Financial assets	1,453	2,935	10,656	1,372	16,416
Net debt	(14,607)	(38,428)	(5,823)	(1,101)	(59,959)

	2003 Sterling	2003 USD	2003 Euro	2003 AUD	2003 Total
Weighted average fixed debt interest rate	6.7%	5.4%	–	–	n/a
Weighted average fixed debt period (years)	2.6	2.6	–	–	n/a

	£000	£000	£000	£000	£000
Fixed rate financial liabilities	(8,515)	(24,278)	–	–	(32,793)
Floating rate financial liabilities	(15,495)	(19,052)	(11,194)	(3,641)	(49,382)
Financial assets	2,101	3,719	13,447	2,244	21,511
Net (debt)/funds	(21,909)	(39,611)	2,253	(1,397)	(60,664)

The fixed rate financial liabilities mainly comprise finance leases.

The floating rate financial liabilities comprise bank and other loans, loan notes and overdrafts, which bear interest based on LIBOR or local country equivalent.

Financial assets comprise cash at bank and in hand. Financial assets and financial liabilities exclude short-term debtors and creditors.

The fair values of the financial assets and liabilities are not materially different from their carrying values.

The Group had an unutilised committed banking facility of £54.2m at 31 December 2004 (2003: £19.2m); the facility expires on 13 December 2009. In addition, the Group had unutilised uncommitted facilities totalling £18.0m at 31 December 2004 (2003: £12.4m). All of these borrowing facilities are unsecured.

# Notes to the accounts continued

## 19 Share capital

Company	2004 £000	2003 £000
<b>Authorised</b>		
Equity share capital: 80,000,000 ordinary shares of 10p each (2003: 80,000,000)	8,000	8,000
<b>Allotted, called up and fully paid</b>		
Equity share capital: 65,362,735 ordinary shares of 10p each (2003: 64,981,050)	6,536	6,507
<b>Share capital to be issued</b>		
Equity shares	-	680

The 2003 share capital to be issued represented the estimated deferred consideration payable in respect of the acquisition of Keller-Terra S.L. On 29 June 2004 277,985 shares with a market value of 240p each were issued in settlement of the deferred consideration payable.

Options outstanding at 31 December 2004:	Number of options	Exercise price	Exercisable from
1994 Scheme	5,000	102p	April 1998 – April 2005
2001 Plan*	1,505,500	231p–355p	May 2004 – August 2008
Performance Share Plan*	298,000	100p**	June 2007

\* Options are only exercisable subject to performance criteria being met.

\*\* Awards under the Performance Share Plan have an exercise price of 100p per exercise.

## 20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2004	35,374	7,629	41,849	84,852
Retained profit for the financial year	-	-	6,256	6,256
Employee share options	-	-	214	214
Exchange differences net of taxation	-	-	(2,695)	(2,695)
Issue of new shares	653	-	-	653
<b>At 31 December 2004</b>	<b>36,027</b>	<b>7,629</b>	<b>45,624</b>	<b>89,280</b>
<b>Company</b>				
At 1 January 2004	35,374	7,629	13,547	56,550
Retained loss for the financial year	-	-	(108)	(108)
Issue of new share options	-	-	214	214
Issue of new shares	653	-	-	653
<b>At 31 December 2004</b>	<b>36,027</b>	<b>7,629</b>	<b>13,653</b>	<b>57,309</b>

At 31 December 2004 the cumulative positive goodwill charged to reserves in previous years is £11,998,000 (2003: £11,998,000) and the cumulative negative goodwill credited to reserves in previous years is £407,000 (2003: £407,000). There have been no disposals of any of the businesses to which this cumulative positive goodwill or negative goodwill relates.

# Notes to the accounts continued

## 21 Reconciliation of movements in shareholders' funds

	2004 Group £000	2003 Group £000	2004 Company £000	2003 Company £000
Profit for the financial year	13,377	2,259	7,013	15,064
Dividends	(7,121)	(6,768)	(7,121)	(6,768)
Exchange differences net of taxation	(2,695)	(136)	-	-
Issue of new shares	682	90	682	90
Issue of new share options	214	-	214	-
Share capital to be issued	(680)	680	(680)	680
<b>Net movements in shareholders' funds</b>	<b>3,777</b>	<b>(3,875)</b>	<b>108</b>	<b>9,066</b>
Shareholders' funds at 1 January	92,039	95,914	63,737	54,671
<b>Shareholders' funds at 31 December</b>	<b>95,816</b>	<b>92,039</b>	<b>63,845</b>	<b>63,737</b>

## 22 Reconciliation of operating profit to net cash inflow from operating activities

Group	2004 £000	2003 £000
Operating profit	30,785	18,957
Depreciation charge	10,992	10,897
Amortisation of goodwill and intangibles	2,964	3,437
Exceptional impairment provision	-	7,372
Profit on sale of fixed assets	(727)	(716)
Other non-cash movements	214	-
Movement in long-term provisions	206	328
Increase in stocks	(8,559)	(2,040)
(Increase)/decrease in debtors	(10,846)	3,351
Increase/(decrease) in creditors	8,548	(1,635)
<b>Net cash inflow from operating activities</b>	<b>33,577</b>	<b>39,951</b>

The 2003 net cash inflow from operating activities is stated after an outflow of £1,605,000 relating to the exceptional restructuring costs.

# Notes to the accounts continued

## 23 Reconciliation of net cash flow to movement in net debt

Group	2004 £000	2003 £000
Increase/(decrease) in cash in the year	1,731	(3,435)
Cash flow from debt and lease financing	(3,111)	7,081
Cash flow from decrease in short-term bank deposits	(1,002)	(885)
Change in net debt resulting from cash flows	(2,382)	2,761
Exchange differences	3,087	4,570
<b>Movement in net debt in the year</b>	<b>705</b>	<b>7,331</b>
Net debt at 1 January	(60,664)	(67,995)
<b>Net debt at 31 December</b>	<b>(59,959)</b>	<b>(60,664)</b>

## 24 Analysis of changes in net debt

Group	At 1 January 2004 £000	Cash flow £000	Exchange differences £000	At 31 December 2004 £000
Cash in hand	19,923	(3,460)	(556)	15,907
Overdrafts	(10,699)	5,191	201	(5,307)
	9,224	1,731	(355)	10,600
Short-term bank deposits	1,588	(1,002)	(77)	509
Bank loans due within one year	(11,705)	10,886	108	(711)
Bank and other loans due after one year	(54,239)	(14,863)	3,397	(65,705)
Loan notes due within one year	(3,529)	493	–	(3,036)
Finance leases	(2,003)	373	14	(1,616)
	(60,664)	(2,382)	3,087	(59,959)

## 25 Cash at bank and in hand

Group	2004 £000	2003 £000
Cash in hand	15,907	19,923
Short-term bank deposits	509	1,588
	<b>16,416</b>	<b>21,511</b>

Cash in hand includes bank deposits repayable on demand. Short-term bank deposits are those which require more than 24 hours notice of withdrawal.

# Notes to the accounts continued

## 26 Related party transactions

In the ordinary course of business the Group has undertaken a number of transactions with certain of its joint arrangements including the transfer of, and charging for, staff and the rental of plant and equipment. The following is a summary of these transactions:

Group	2004 £000	2003 £000
Share of turnover from the joint arrangements	10,104	6,651
Net joint arrangement balances at 1 January	(12)	1,091
Share of profit from the joint arrangements before overhead allocation	1,803	364
Net distributions from the joint arrangements	(1,952)	(1,502)
Exchange differences	8	35
Net joint arrangement balances at 31 December	(153)	(12)
Joint arrangement debtor balances at 31 December	588	367
Joint arrangement creditor balances at 31 December	(741)	(379)

During the year the Group undertook various contracts with a total value of £12.7m (2003: £8.4m) for Terratest Tecnicas Especiales S.A., a connected person of Mr Lopez Jimenez. An amount of £3.4m (2003: £2.2m) is included in debtors in respect of amounts outstanding at 31 December 2004.

## 27 Commitments

The Group had annual commitments under non-cancellable operating leases as follows:

	2004 Land and buildings £000	2004 Plant, machinery and vehicles £000	2004 Total £000	2003 Land and buildings £000	2003 Plant, machinery and vehicles £000	2003 Total £000
Expiring within one year	875	1,079	1,954	725	782	1,507
Expiring between two and five years inclusive	2,034	3,057	5,091	1,667	2,899	4,566
Expiring in over five years	838	-	838	1,008	-	1,008
	3,747	4,136	7,883	3,400	3,681	7,081

## 28 Contingent liabilities

The Group has entered into bonds in the normal course of business relating to contract tenders, advance payments, contract performance and the release of retentions.

The Company and certain of its subsidiary undertakings have entered into a number of guarantees, the effects of which are to guarantee or cross guarantee certain bank borrowings.

There are claims arising in the normal course of trading, which involve or may involve litigation. All amounts which the directors consider will become payable on account of such claims have been fully accrued in these accounts.

At 31 December 2004 the Group had discounted bills of exchange and standby letters of credit outstanding totalling £17,164,000 (2003: £12,813,000).

# Notes to the accounts continued

## 29 Pensions

The Group operates several pension schemes in the UK and overseas.

In the UK, the Group operates the Keller Group Pension Scheme, a defined benefit scheme, which is closed to new employees. The assets of the scheme are held separately from the Group in trustee administered funds which are managed by investment managers. A full actuarial valuation of the scheme was carried out by an independent professionally qualified actuary as at 5 April 2002. At this date the market value of the assets of the scheme was £14.6m and the actuarial valuation showed a funding level of 79%. The next actuarial valuation will be carried out as at 5 April 2005.

The Group has taken steps to address the deficit in the Keller Group Pension Scheme. The contribution rate for employees was increased from 6% to 8% with effect from 6 April 2002 and the contribution rate for the Group was increased from 12% to 13% with effect from 6 April 2003 giving a combined contribution rate of 21%. In addition, in December 2001 the Group made a one-off contribution to the scheme of £250,000 which was followed by another one-off contribution of £200,000 in January 2003.

The actuarial method of assessing the funding rates was that of the projected unit credit method. The principal actuarial assumptions used were: investment returns of 8.21% before retirement and 5.21% after retirement, salary increases of 4.91% and pension increases of 2.91%.

The total UK pension charge for the year was £783,000 (2003: £770,000).

On 6 October 1999, a defined contribution scheme was established. There were no contributions outstanding in respect of the defined contribution scheme at 31 December 2004.

In Germany and Austria, the Group has defined benefit retirement obligations for employees who joined the Group prior to 1 January 1998. These obligations are funded on the Group's balance sheet and at 31 December 2004 the liability was £7,047,000 (2003: £6,879,000). The total German and Austrian pension charge for the year was £628,000 (2003: £787,000) based on local generally accepted accounting principles.

The Group operates a defined contribution scheme for employees in the USA, where the Group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total USA pension charge for the year was £854,000 (2003: £838,000).

In Australia there is a defined contribution scheme where the Group is required to ensure that a prescribed level of superannuation support of an employee's notional base earnings is made. This prescribed level of support is currently 7%. The total Australian pension charge for the year was £697,000 (2003: £658,000).

The information included in the accounts and in the above disclosure note follows the requirements of the existing standard for accounting for pension costs: SSAP 24. The transitional disclosures required by FRS 17 – Retirement Benefits are set out below:

	As at 31 December 2004 £000	As at 31 December 2003 £000
<b>The Keller Group Pension Scheme</b>		
Market value of assets	16,846	15,082
Present value of the scheme liabilities	(25,004)	(21,119)
Deficit in the scheme	(8,158)	(6,037)
Related deferred tax asset @ 30%	2,447	1,811
Net pension liability	(5,711)	(4,226)

The value of the scheme liabilities has been determined by the actuary based on an actuarial valuation as at 5 April 2002 updated to the balance sheet date and using the following assumptions:

	As at 31 December 2004	As at 31 December 2003	As at 31 December 2002
Rate of increase in salaries	3.85%	3.75%	3.67%
Rate of increase in pensions in payment	2.85%	2.50%	2.42%
Rate of revaluation of pensions in deferment	2.85%	2.50%	2.42%
Inflation assumption	2.85%	2.50%	2.42%
Discount rate	5.50%	5.75%	5.75%

# Notes to the accounts continued

## 29 Pensions continued

The assets of the scheme and the expected long-term rates of return were:

	Value as at 31 December 2004 £000	Expected long term return 2004	Value as at 31 December 2003 £000	Expected long term return 2003	Value as at 31 December 2002 £000	Expected long term return 2002
Equities	9,108	8.0%	9,242	8.0%	7,417	8.5%
Bonds	7,738	4.8%	5,840	5.2%	5,107	5.0%
Total market value of assets	16,846		15,082		12,524	

	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000
<b>Amount charged to operating profit</b>		
Current service cost	422	398
<b>Amount charged to other finance cost</b>		
Expected return on assets	1,055	910
Interest on scheme liabilities	(1,216)	(1,101)
Net cost	(161)	(191)
<b>Amounts recognised in Statement of Total Recognised Gains and Losses (STRGL)</b>		
Actual less expected return on assets	462	968
Experience (losses)/gains on liabilities	(224)	860
Effect of change in assumptions on liabilities	(2,403)	(1,595)
Total (loss)/gain recognised in STRGL	(2,165)	233
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of year	(6,037)	(6,503)
Current service cost	(422)	(398)
Cash contribution	627	822
Other finance cost	(161)	(191)
Actuarial (loss)/gain	(2,165)	233
Deficit in scheme at end of year	(8,158)	(6,037)

	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
<b>History of experience gains and losses</b>			
Difference between expected and actual returns on scheme assets	462	968	(2,715)
Percentage of assets at end of year	2.7%	6.4%	21.7%
Experience (losses)/gains on scheme liabilities	(224)	860	(2,369)
Percentage of liabilities at end of year	0.9%	4.1%	12.5%
Total actuarial (loss)/gain	(2,165)	233	5,592
Percentage of liabilities at end of year	8.7%	1.1%	29.4%

# Notes to the accounts continued

## 29 Pensions continued

	Value as at 31 December 2004 £000	Value as at 31 December 2003 £000	
<b>German and Austrian Schemes</b>			
Present value of the schemes liabilities	(7,435)	(5,963)	
Related deferred tax asset/(liability) at 38% (2003: 38%)	148	(341)	
<b>Net pension liability</b>	<b>(7,287)</b>	<b>(6,304)</b>	
The value of the schemes' liabilities has been determined by the actuary using the following assumptions:			
	As at 31 December 2004	As at 31 December 2003	As at 31 December 2002
Discount rate	5.3%	6.0%	5.8%
	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000	
<b>Amount charged to operating profit</b>			
Current service cost	94	92	
<b>Amount charged to other finance cost</b>			
Interest on scheme liabilities	(360)	(206)	
<b>Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)</b>			
Experience losses on liabilities	(15)	(701)	
Effect of change in assumptions on liabilities	(1,003)	115	
<b>Total loss recognised in STRGL</b>	<b>(1,018)</b>	<b>(586)</b>	
<b>Movement in deficit during the year</b>			
Deficit in scheme at beginning of year	(5,963)	(5,079)	
Current service cost	(94)	(92)	
Other finance cost	(360)	(206)	
Actuarial loss	(1,018)	(586)	
<b>Deficit in scheme at end of year</b>	<b>(7,435)</b>	<b>(5,963)</b>	
	Year ended 31 December 2004 £000	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
<b>History of experience gains and losses</b>			
Experience losses on scheme liabilities	(15)	(701)	(243)
Percentage of liabilities at end of year	0.2%	11.8%	4.8%
<b>Total actuarial loss</b>	<b>(1,018)</b>	<b>(586)</b>	<b>(39)</b>
<b>Percentage of liabilities at end of year</b>	<b>13.7%</b>	<b>9.8%</b>	<b>0.8%</b>

# Financial record

	2000 £000	2001 £000	2002 £000	2003 £000	2004 £000
<b>Consolidated profit and loss account</b>					
Turnover	312,954	422,248	510,971	567,505	595,856
Operating profit before exceptional items and amortisation of intangibles	17,706	25,429	34,344	32,838	33,749
Amortisation of intangibles	(322)	(1,251)	(3,100)	(3,437)	(2,964)
Exceptional items	(1,177)	–	–	(10,444)	–
Operating profit	16,207	24,178	31,244	18,957	30,785
Net interest payable	(760)	(1,785)	(3,914)	(4,151)	(4,147)
Profit on ordinary activities before taxation	15,447	22,393	27,330	14,806	26,638
Taxation	(5,791)	(8,684)	(10,684)	(10,701)	(11,130)
Profit on ordinary activities after taxation	9,656	13,709	16,646	4,105	15,508
Equity minority interests	140	(342)	(233)	(1,846)	(2,131)
Profit for the financial year	9,796	13,367	16,413	2,259	13,377
Dividends paid and proposed	(4,829)	(5,401)	(6,284)	(6,768)	(7,121)
Retained profit/(loss) for the financial year	4,967	7,966	10,129	(4,509)	6,256
<b>Consolidated balance sheet</b>					
Intangible fixed assets	12,696	61,019	66,664	57,046	57,890
Tangible fixed assets	50,788	59,277	79,815	82,169	80,937
Other net operating assets	18,971	31,857	43,939	40,132	46,819
Net debt	(9,611)	(63,202)	(67,995)	(60,664)	(59,959)
Other liabilities	(15,216)	(15,676)	(22,279)	(21,060)	(24,260)
Net assets	57,628	73,275	100,144	97,623	101,427
Equity minority interests	(712)	(1,004)	(4,230)	(5,584)	(5,611)
Equity shareholders' funds	56,916	72,271	95,914	92,039	95,816
Gearing	17%	86%	68%	62%	59%
Basic earnings per share	17.3p	23.6p	27.5p	3.5p	20.5p
Earnings per share before exceptional items and amortisation of intangibles	19.0p	25.8p	32.7p	24.1p	25.1p
Diluted earnings per share	17.2p	23.4p	27.3p	3.5p	20.5p
Dividend per share	8.5p	9.2p	9.9p	10.4p	10.9p

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