

FINANCIAL REVIEW

JAMES HIND



2008 was another excellent year for Keller, with revenue, profits and operating cash flows again at record levels.

Comparisons of sterling-denominated headline numbers with 2007 are made difficult by currency movements. Overseas revenue, profits and cash flows are translated using average foreign exchange rates. The average US dollar exchange rate against sterling was US\$1.86, 7% stronger than in 2007, while the average euro exchange rate against sterling strengthened 14% from €1.46 to €1.26. The impact on the Group's consolidated assets and liabilities, which are translated at year-end exchange rates, was more pronounced as both the US dollar and the euro strengthened against sterling by around 30% between the beginning and end of 2008.

Results (from continuing operations)

Trading results

Group revenue increased by 25% in the year to £1,196.6m, reflecting strong organic growth in most of the Group's main markets, together with currency benefits and a small contribution from acquisitions. Stripping out the effects of acquisitions and foreign exchange movements, the Group's 2008 revenue was 12% up on 2007.

EBITDA was £144.3m, compared to £125.8m in 2007. Operating profit was £119.4m, up from £107.4m in 2007. Adjusting for the effects of acquisitions and currency movements, the Group's operating profit was substantially unchanged from 2007. At 10.0%, the operating margin remained strong although somewhat lower than last year's record high of 11.2%.

In the US, the Group's largest market, the US dollar-denominated operating profit was down 21% year-on-year, mainly reflecting the loss of profits at Suncoast, the business most exposed to the US residential market. In contrast, both CEMEA and Australia had excellent years, with very strong organic revenue growth and operating profits increasing on a constant currency basis by 42% and 21% respectively. In the UK, profits were down somewhat, reflecting the downturn in the UK construction market.

The Group's trading results are discussed more fully in the Chairman's Statement and the Operating Review.

Net finance costs

Net finance costs increased from £4.2m in 2007 to £6.2m in 2008. This increase is due to non-cash items included in net finance costs under IFRS. The net interest payable on the Group's net debt remained unchanged at £3.3m.

“The Group has sufficient available financing to support our strategy of growth, both through organic means and targeted, bolt-on acquisitions.”

James Hind, Finance Director

Tax

The Group's underlying effective tax rate was 32%, down from 35% in 2007, reflecting the fact that a higher proportion of the Group's profit was derived from lower tax countries. This lower rate is expected to be maintained in the short to medium term.

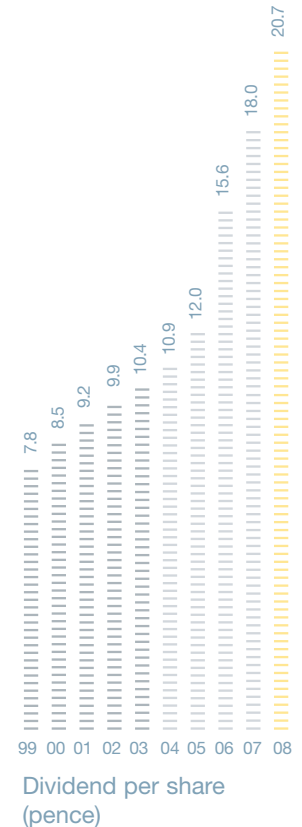
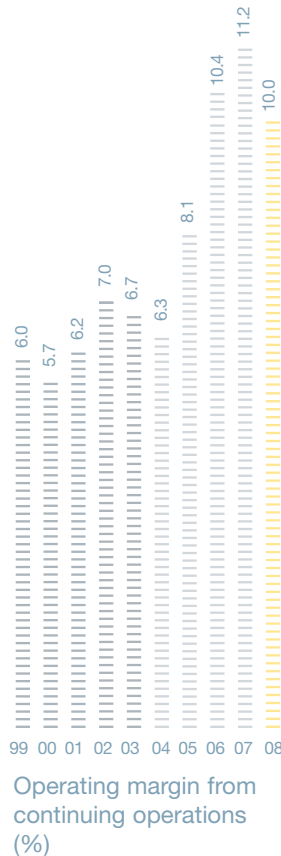
Discontinued operation

In 2007, we disposed of substantially all of our Makers business in the UK resulting in a charge after tax of £10.5m in that year. In 2008, the process of winding up legacy issues continued, resulting in an additional post-tax charge of £1.7m.

Earnings and dividends

Earnings per share (EPS) from continuing operations increased by 14% to 111.1p. Basic EPS, stated after the losses related to Makers, was 108.6p (2007: 81.8p).

The Board announced in 2007 that it intended to increase dividends by 15% per annum for the foreseeable future, subject to the dividend payment being three times covered. The Board is therefore recommending a final dividend of 13.8p per share, which brings the total dividend paid out of 2008 profits to 20.7p, a 15% increase on last year. The 2008 dividend is covered 5.4 times by EPS from continuing operations.



Cash flow

The Group has always placed a high priority on cash generation and has, in recent years, consistently improved working capital ratios. The current economic environment is inevitably putting pressure on working capital in certain locations and we will therefore continue to focus on maximising cash generation and minimising the Group's investment in working capital.

In 2008, the Group continued its excellent record of converting profits into cash. Net cash inflow from operations (excluding Makers) was £143.5m, representing 99% of EBITDA. The net cash outflow relating to Makers was £5.1m. Year-end working capital was £92.2m, £29.1m higher than at the end of 2007, due almost entirely to currency movements. Stripping out the impact of currency movements and acquisitions, year-end working capital was down on 2007, despite the Group's strong organic growth.

Capital expenditure, net of disposals, totalled £65.2m, up £11.4m on 2007 using like-for-like exchange rates. This significant increase reflects the growth in the Group's operations and the additional capital expenditure being committed to areas of long-term growth, most notably to build the Group's heavy foundations businesses in Eastern Europe and the Middle East. Capital expenditure is expected to decrease substantially in 2009 to around £40m.

The Group spent £14.1m in cash on acquisitions in the year including net debt assumed, mainly on Olden and Boreta, as well as £17.5m on purchasing its own shares (see below).

Financing

As at 31 December 2008, year-end net debt amounted to £84.6m (2007: £54.5m), with £20.7m of this increase resulting from currency movements. Based on net assets of £302.6m, year-end gearing was 28%, up slightly from 26% at the beginning of the year.

The Group's debt and committed facilities mainly comprise a US\$100m private placement, repayable US\$30m in 2011 and US\$70m in 2014, an £80m syndicated revolving credit facility expiring in 2011 and a £65m syndicated revolving credit facility expiring in July 2010. To date, the Group has not drawn down on this £65m facility. At the year end, the Group also had other committed and uncommitted borrowing facilities totalling around £79m. The Group therefore has sufficient available financing to support our strategy of growth, both through organic means and targeted, bolt-on acquisitions.

The major covenants in respect of our main borrowing facilities relate to the ratio of net debt to EBITDA, EBITDA interest cover and the Group's net worth. The Group

is operating very comfortably within its covenant limits, as is illustrated in the table below:

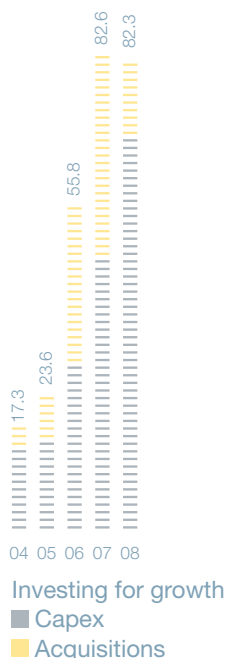
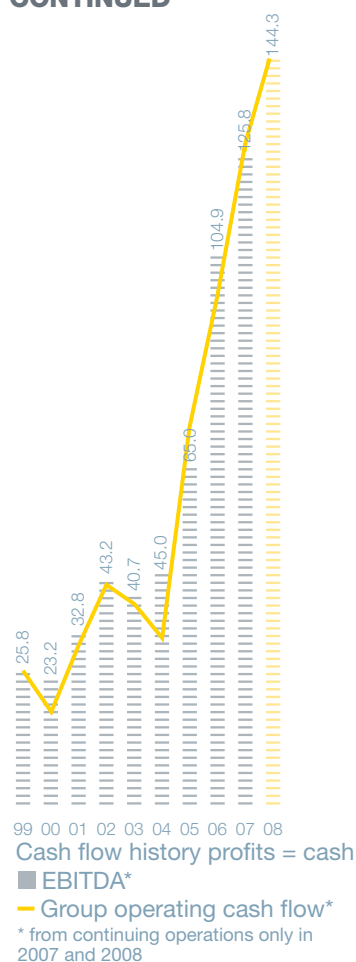
Test	Covenant limit	Current position
Net debt: EBITDA	< 3x	0.6x
EBITDA interest cover	> 4x	23.2x
Net worth	> £78m	£302.6m

Capital structure

The Group's capital structure is kept under constant review, taking account of the need for, availability and cost of various sources of finance. In March 2008 the Board announced its intention to buy back up to 5% of the Company's ordinary shares. Between then and September 2008, the Company repurchased 2.2 million shares under this programme, representing 3.3% of its issued share capital, all of which are held in treasury. In addition, the Company purchased a further 0.3 million shares specifically to satisfy Performance Share Plan awards vesting in the period. The total cost of purchased shares was £17.5m and the average price paid per share was 681p. The Board has no current intention to purchase more treasury shares, other than to satisfy Performance Share Plan awards vesting in 2009.

FINANCIAL REVIEW

CONTINUED



Pensions

The Group has defined benefit pension arrangements in the UK, Germany and Austria.

The Group closed its UK defined benefit scheme for future benefit accrual with effect from 31 March 2006 and existing active members transferred to a new defined contribution arrangement. The last actuarial valuation of the UK scheme was as at 5 April 2008, when the market value of the scheme's assets was £26.9m and the scheme was 77% funded on an ongoing basis. The level of contributions, currently set at £1.5m a year, will be reviewed at the next actuarial valuation, which will be as at April 2011.

The 2008 year-end IAS 19 valuation of the UK scheme showed assets of £26.3m, liabilities of £28.6m and a pre-tax deficit of £2.3m.

In Germany and Austria, the defined benefit arrangements only apply to certain employees who joined the Group prior to 1998. There are no segregated funds to cover these defined benefit obligations and the respective liabilities are included on the Group balance sheet. These totalled £11.3m at 31 December 2008.

All other pension arrangements in the Group are of a defined contribution nature.

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. The Group aims to reduce the impact that retranslation of these assets might have on the balance sheet, by matching the currency of its borrowings, where possible, with the currency of its assets. The majority of the Group's borrowings are US dollar-denominated, in order to provide a hedge against the Group's US dollar-denominated net assets.

The Group manages its currency flows to minimise currency transaction exchange risk. Forward contracts and other derivative financial instruments 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.

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 and term of the financing. As at 31 December 2008, virtually all the Group's third party borrowings bear interest at floating rates.

Credit risk

The Group's principal financial assets are trade and other receivables and bank and cash balances. These represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group has stringent procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. Customer credit risk is mitigated by the Group's relatively small average contract size and its diversity, both geographically and in terms of end markets. As a result, no customer represented more than 3% of sales in 2008. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution by reference to their credit rating and by regular reviews of these ratings.

James Hind

2 March 2009