12 March 2004

Preliminary results for the year ended 31 December 2003

Keller Group plc ("Keller" or "the Group"), the international ground engineering specialist, is pleased to announce its preliminary results for the year ended 31 December 2003 .

Highlights include:

- Turnover up 11% at £567.5m (2002: £511.0m), benefiting from first full year contributions from McKinney and Keller-Terra

- Profit before tax* down 6% to £28.7m (2002: £30.4m), impacted by adverse currency fluctuations of £0.9m

- Earnings per share* reduced to 24.1p (2002: 32.7p), reflecting in part an increased minority interest and a higher tax charge

- Total dividend per share increased by 5% to 10.4p (2002: 9.9p)

- Strong cash performance, resulting in a fall in net debt to £60.7m (2002: £68.0m)

- Makers expected to recover in 2004

- Current order book remains good, representing over four months' sales

- Justin Atkinson takes over as Chief Executive at end of March, following the retirement of Tom Dobson

* *before exceptional items of £10.5m and amortisation of intangibles of £3.4m (2002: nil and £3.1m)*

Justin Atkinson, Keller Chief Executive designate said:

"The 2003 results mark a disappointing pause in the Group's long-term track record of growth. Our current focus is to consolidate and strengthen our existing businesses, returning Makers to profitability and improving Suncoast's margins during the course of 2004."

"Looking ahead, we are confident of restoring our successful track record of growing the business through a combination of organic expansion, both in existing and new markets, and targeted bolt on acquisitions."

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A presentation for analysts will be held at 9.15 for 9.30am at Butcher's Hall, 87-88 Bartholomew Close, EC1

Print resolution images are available for the media to download from www.vismedia.co.uk

Preliminary Announcement

Chairman's Statement

Results

The results for the 2003 financial year mark a disappointing pause in the Group's long-term track record of growth. In general, our specialist ground engineering businesses performed ahead of the previous year and in line with our expectations at the start of the year, but the Group result was held back by reduced margins in our US post-tensioning business, Suncoast, and by a poor result from Makers in the UK .

Sales at £567.5m were up 11% (2002: £511.0m), with profit before tax, exceptional items and amortisation of intangibles down 6% to £28.7m (2002: £30.4m). The results include an underlying loss of £0.9m at Makers (which compares to a £2.8m operating profit in the previous year) and the adverse net impact of exchange rate fluctuations of £0.9m. Earnings per share before exceptional items and amortisation of intangibles reduced to 24.1p (2002: 32.7p).

Exceptional costs of £3.1m were incurred in connection with the restructuring of our UK businesses. Makers' weak performance also resulted in an exceptional goodwill impairment charge of £7.4m. Profit before tax after exceptional items and amortisation of intangibles totalled £14.8m (2002: £27.3m).

We announced in December 2003, following a strategic review, that the Group would focus on its core specialist ground engineering activities worldwide and that its management and reporting would be structured along geographic, rather than product, lines. W e believe that these actions will strengthen the Group in 2004.

Cash flow and net debt

Net cash inflow from operating activities was £40.0m, representing 98% of the Group's EBITDA. This compares to £43.2m and 100% in 2002. This strong cash performance, including a particularly good inflow in the last quarter, resulted in net debt at the end of the year of £60.7m (2002: £68.0m). Interest cover remains comfortable at over 10 times EBITDA.

Dividends

In recognition of the strong fundamentals of our core business and our confidence in the future performance of the Group, the Board is recommending an increased final dividend of 6.95p per share (2002: 6.6p), bringing the total dividend for the year to 10.4p (2002: 9.9p), an increase of 5%. This will be paid on 28 June 2004 to shareholders on the register at 28 May 2004 . This increase is in line with our policy of reinvesting our strong cash flow in the continued growth of the Group, whilst at the same time maintaining a healthy dividend cover and seeking to reward shareholders with above inflation increases.

Board

During the year, we completed our management succession planning. Following the appointment in March 2003 of Justin Atkinson (43) as Chief Operating Officer, we were pleased to welcome James Hind to succeed Justin as Finance Director in July. James, 39, joined the Group from D S Smith plc, the international packaging manufacturer and office products wholesaler, where he had been group financial controller since 1997.

The board was further strengthened during the year by the appointments of Bob Rubright (51) in March and Dr Wolfgang Sondermann (53) in November, who between them have careers spanning 38 years with the Keller Group. Rob Ewen stood down in November, following the decision to change the Group's strategic focus and its management and reporting structure.
With the new executive team secured, Tom Dobson, who joined the Group in 1966 and has been Chief Executive for the past six years, will retire from his position and from the Board at the end of March 2004. We are indebted to Tom for his enormous contribution to the Group and we will continue to benefit from his wisdom and experience, as he will remain an adviser to the Group for a further three years. Justin Atkinson will succeed Tom as Chief Executive.

Mr Pedro Lopez Jimenez joined the board as a non-executive director in January 2003 and in October we welcomed Dr Kevin Bond back to the board as a non-executive director, following his two-year assignment at the Home Office.

People

May 2004 will mark the tenth anniversary of Keller's listing on the London Stock Exchange. Since our flotation, we have delivered to shareholders compound annual growth in earnings per share of 10%. At the heart of this track record is a team of quality people with huge expertise and an in-depth knowledge of our industry, many of whom have served with us throughout this period. On behalf of the board, I would like to thank all our employees for their hard work and to reiterate our commitment to rewarding their achievements and loyalty with excellent training and development opportunities in an environment where they can fulfil their potential.

Strategy

Our current focus is to consolidate and strengthen our existing businesses, returning Makers to profitability and improving Suncoast's margins during the course of 2004. Looking ahead, we continue to see significant growth opportunities within our core competence of specialist ground engineering in the United States , Europe and South East Asia . We are therefore confident of restoring our successful track record of growing the business through a combination of organic growth, both in existing and new markets, and targeted bolt on acquisitions.

Outlook

The current year has started somewhat slowly, which is likely to mean that profit will be more second-half weighted than in 2003, consistent with earlier years. However, order intake in the first two months of 2004 was good, especially in Continental Europe & Overseas, where prospects are encouraging. In North America , we foresee little change in our major markets, but a continuing weakness in the US dollar will affect the result in sterling terms. We anticipate another good year in Australia and, in the UK , we expect Makers to return to profitability during the course of 2004, the benefit of which will come through in the second half. Our current order book remains good, representing over four months' sales, giving us a sound platform from which to go forward.

Operating Review

2003 was a demanding year for Keller, with a robust performance from all our specialist ground engineering businesses with the exception of Suncoast, which suffered from rising costs following the introduction of US tariffs on steel strand. This generally good performance was overshadowed by a disappointing result from Makers, reflecting poor contracting margins in its infrastructure business and low volume in social housing.

Conditions in our major markets

Given our broad geographic spread, we were once again subject to a variety of market conditions: US construction continued to be characterised by a healthy residential sector, broadly flat investment in public infrastructure and softness in the commercial sector. In Europe , we saw a further reduction in construction volumes in Germany and France , whilst public infrastructure spending sustained demand in our other principal European markets such as Austria , Poland and the UK . Australia , which continued its post-Olympics recovery, remained buoyant during the year. Whilst the Middle and Far East markets were generally subdued, there were several large projects which offered good opportunities.

Strategic developments

In December we announced our decision to concentrate on our core specialist ground engineering activities worldwide and to restructure our management and reporting along geographic, rather than product, lines. In the UK , we restructured the Keller Ground Engineering (KGE) business to focus on its higher value-added geotechnical and ground improvement solutions, streamline its processes and improve margins. Following weak trading at Makers, a new management was appointed in December 2003 to refocus the business and ensure its return to profitability.

The acquisitions of Keller-Terra and McKinney , both made in December 2002, were consolidated during the course of 2003. McKinney started the year slowly, with severe weather experienced in its principal trading areas, but recovered well and had an excellent second half. Keller-Terra traded very strongly, exceeding our expectations.

Following the successful formula of extending our reach and introducing our market leading technologies into new geographic regions, we progressed a number of initiatives which pave the way for future organic growth, including:

- the acquisition in January 2004 of the remaining 50% minority stake in LCM for up to £2.7m, which will enable us to continue the transfer of its lime column technology into Keller markets outside Sweden, with a number of interesting potential applications in the UK and North America;

- the formation of a new subsidiary in Australia, offering ground improvement and geotechnical solutions which are gaining growing acceptance in Australia as an alternative to traditional piling; and

- the award of four contracts in North Africa , marking the introduction of stone column techniques to Morocco and compaction grouting to Algeria .

Operations

North America

The North American operations had a satisfactory year in challenging conditions. Sales of £270.4m (2002: £242.6m) were 11% ahead of the previous year, whilst operating profit before amortisation of intangibles of £19.3m (2002: £22.3m) was slightly behind the previous year, reflecting the £1.9m adverse impact of movements in the US dollar against sterling and reduced margins at Suncoast.

Case had another good year, with a particularly strong result from Case Atlantic. Significant contributors to its result were the design and build contract to install a reinforced concrete diaphragm wall and internal bracing system to allow construction of an underground storage facility at the Field Museum in Chicago; and the Cross-town Expressway in Tampa, Florida. Case's involvement in the latter project began in April 2003 and involves the installation of 220 large-diameter drilled shafts to support a five mile elevated highway over the existing Cross-town Expressway.

The second quarter improvement in the performance of McKinney was maintained throughout the second half, producing an encouraging result for McKinney 's first full year in the Group. During the year, McKinney successfully completed some 1300 contracts, with an average contract value of £31k. The integration process has progressed well.

2003 proved to be a demanding year for Hayward Baker, whose results were held back towards the end of the year by a weak performance from its western region, where steps have since been taken to strengthen the operational management and to reduce overheads. The new branch office established in Boston at the end of 2002 made good progress during the year. Hayward Baker successfully completed a number of large and complex contracts during the year. These included a ground improvement contract at the George W. Bush Turnpike project in Houston , using a combination of compaction grouting and lime injection on a landfill site to support construction of a new turnpike; a major soil mixing project for fuel storage tank support in Louisiana ; and jet grout underpinning at the Supreme Court building in Washington DC . In contrast to its capacity to win and undertake these large, high profile contracts, Hayward Baker's sales continue to be dominated by lower-risk, small and medium sized contracts, to which its regional structure is well suited.

Suncoast increased its sales in the year by around 20%, including an increase of nearly 50% in combined sales from California and Arizona , marking progress in the strategy of reducing its reliance on the business's traditional Texas market.

During the year, the business faced material cost increases of 30% as a result of the tariffs on steel strand introduced in July and other price pressures in the steel industry. The full impact could only be partly mitigated by selling price increases and by manufacturing efficiency gains, leading to an erosion in Suncoast's operating margin of around three percentage points. The material cost increases caused some competitor fall-out in the Florida and Georgia markets, which strengthened Suncoast's market position on the East Coast. A more aggressive approach to pricing in 2004, together with further initiatives to reduce costs, is planned to help to restore margins going forward.

The new Sacramento office, which became full operational early in 2003, is enabling the business to expand further its operations on the West Coast and is expected to be a significant contributor in 2004. With a high proportion of housing starts still using traditional foundation methods, we believe that significant opportunities exist to gain further market share.

Continental Europe & Overseas

Our Continental Europe & Overseas business produced another very good performance, including an excellent first year contribution from Keller-Terra. Sales of £165.2m (2002: £135.6m) and operating profit before amortisation of intangibles of £13.8m (2002: £8.0m) were respectively some 22% and 72% ahead of the previous year's strong results.

Against a further decline in the German construction market, sales and profit in our German operation were broadly flat, although we detected signs of increased public infrastructure spending in Germany and the Netherlands towards the end of the year. The weak construction volumes in Switzerland , France and Portugal reported at the half year continued throughout the second half. Our operations in Austria and Italy achieved good results and we made further progress in penetrating the small, but growing, Eastern European market. In 2004, a new office in Poznan will become operational, giving us full territorial coverage in Poland.

Keller-Terra, our 51%-owned Spanish subsidiary acquired in December 2002, had a very good first year, with an encouraging take up of soil improvement techniques that were not previously well known in the Spanish market. The business undertook over 260 contracts during the year, spanning the residential, commercial, industrial, utility and infrastructure sectors. Significant contributions came from contracts related to highways, dam rehabilitation and slope repair.

2003 was another successful year for LCM, the Swedish lime column business. LCM sales increased by 36% and the transfer of the technology into new markets made good headway.

Within the Overseas division, the Far East maintained its excellent performance, with good sales volume and productivity, despite the delayed start of two major ground improvement projects in Singapore . A significant contribution came from Malaysia , where we are undertaking grouting during the construction of storm water tunnels in Kuala Lumpur . The twin tunnels are thought to be the third largest in the world and will feature triple decks carrying both storm water and road vehicles.

Our Middle East businesses generally performed in line with our expectations, with a good result from Egypt . Since the end of the year we have been awarded a €12m ground improvement contract at Palm Island - a prestigious development of hotels, shops and luxury homes to be built on a reclaimed island off the coast of Dubai . Keller's work will involve densifying the sand, thereby improving the stability of the island to support utilities and structures.

UK

Sales in the year were £103.9m (2002: £106.7m), with operating profit before exceptionals and amortisation of intangibles of £0.5m (2002: £4.3m), respectively some 3% and 88% below the previous year.

As we announced in our trading update on 1 December 2003 , despite the actions taken earlier in the year, the weak first-half trading at Makers continued into the second half of the year. The disappointing result from Makers was mainly attributable to poor contracting margins in its infrastructure business, particularly in the highways division; weak trading from social housing outside the South East; and disappointing spend, leading to lower than anticipated volumes, in social housing refurbishment in London. As a result, Makers made a loss in the full year prior to exceptional items for restructuring and goodwill impairment.

A new managing director, Peter Davis, with almost 20 years' experience with the Keller Group, was appointed to Makers in December 2003, reporting directly to Justin Atkinson. Going forward, Makers will concentrate on social housing refurbishment in the South East, together with water and car park related concrete repair work. Since the appointment of Peter Davis, the business is stabilising and certain business lines that were loss making in 2003 have been discontinued, which has led to a further reduction in the cost base. Work in hand for the South East social housing business, which remained profitable throughout 2003, has improved recently. This should underpin a return to profitability for Makers during the course of 2004.
As announced in June 2003, KGE's mid-year withdrawal from large diameter bored piling, focusing the business on its higher value-added ground improvement and geotechnical solutions, resulted in improved margins in the second half of the year.

The restructured KGE business has retained some capacity in augercast and cast-in-situ piling, enabling the ground improvement division to continue its offering of integrated solutions. The success of this approach was illustrated in many of the contracts undertaken in the year, such as Cheetham Hill Retail Park , where a combination of vibro replacement, cast-in-situ piling and dynamic compaction was employed to provide effective and economic foundation support. The bulk of KGE's ground improvement work comprised relatively small contracts for a wide range of house builders and property developers.

KGE's geotechnical division made good progress with its permeable reactive barrier system for the control of contaminated groundwater, with two large projects commencing towards the end of the year. 2003 also saw the identification of new applications for its soil mixing systems, such as quay wall remediation projects at Barking and Tilbury and a land rehabilitation project at Bow. In the slope stability arena, we carried out a number of contracts including soil nails for the M42 widening scheme, whilst the Comtec division installed temporary bunds at the Heathrow Terminal 5 project – at 18 metres high, the tallest bunds constructed in Britain.

Australia

Franki, which celebrated its 50 th anniversary in 2003, ended the year with another strong performance, including a sound contribution from its Indonesian subsidiary. Major contracts included the foundations for "The Circle on Cavill", a residential, retail and cultural development on Queensland's Gold Coast; retaining walls for an access road to a new apartment block at Martha Cove in New South Wales; and a major pre-cast piling project at "Waterfront City" in Victoria's Docklands.

During the year Franki undertook a contract to supplement and underpin deficient foundations at the Gold Coast Convention Centre. This was the largest compaction grouting project ever carried out in Australia , for which Franki drew on technology developed elsewhere in the Keller Group. The success of this project illustrates the growing acceptance of ground modification techniques as an alternative to traditional piling in Australia and bodes well for Keller's new ground improvement operations in the region. Vibropile, which completed its first full year within the Group, was affected by an over-heated property market mid-year, but finished the year on a positive note. Known for its market-leading deep continuous flight augur techniques, Vibropile secured foundation contracts for major developments such as the " Victoria Points " apartments in Victoria 's Docklands and a new engine plant for General Motors in Port Melbourne.

Maintaining our Competitive Edge

Throughout 2003, Group companies have continued to modernise their systems of work and their equipment fleets to maintain their competitive edge through increased productivity and capability, for example:

- the drilling capability of Case was extended by the acquisition of a new top drive, reverse circulation drill, which enabled Case to drill the hardest rock it has ever encountered;
- Hayward Baker developed mobile, high capacity grout mixing systems to deliver productivity improvement on jet grouting and soil mixing contracts;
- our German workshops built for our exclusive use and commercial advantage six of the new generation "TR05" Vibrocats. Technical innovations include a new feed system designed to increase the feed rate by around 25%, together with various control system

developments, which are expected to give further productivity improvements. Information on the status of the equipment can be relayed automatically to our workshops, enabling problems to be detected and diagnosed before they impact on production and resulting in a significant reduction in maintenance costs; and

- Germany also produced a new vibrator designed to improve productivity and quality for sand compaction jobs. Two of the new models are currently on site in Singapore and the initial results are showing promising productivity improvements.

These and other ongoing improvements in productivity and capability, combined with our planned further geographic expansion, will be key to securing our future growth.

Financial review

Trading Results

The Group's sales at £567.5m were 11% higher than in 2002. This increase reflects a full year's contribution from the acquisitions completed in 2002, most notably McKinney and Keller-Terra, both of which were not acquired until December 2002.

Movements in reported sales and profits were also significantly influenced by fluctuations in foreign currency exchange rates. The average US dollar exchange rate against sterling weakened by 9% in the year, while the average euro exchange rate strengthened by 9%. Stripping out the effects of both acquisitions and currency movements, the Group's like for like 2003 sales were 1% down on 2002.

Operating profit before exceptional items and the amortisation of intangibles was £32.8m, compared to £34.3m in 2002, despite an encouraging first year contribution from both McKinney and Keller-Terra which, taken together, exceeded our expectations. The 2003 result is stated after a £0.9m net adverse currency impact, primarily due to the weaker US dollar, and an underlying loss at the Group's Makers business of £0.9m. The Makers loss compares to a £2.8m operating profit in the previous year, despite having acquired Accrete in August 2002. Excluding the impact of both acquisitions and currency, the operating profit of the Group's core specialist ground engineering businesses was slightly down on 2002.

As a result of the disappointing year at Makers, an exceptional goodwill impairment charge of £7.4m has been charged to the profit and loss account, representing all of the remaining capitalised goodwill relating to Makers. The results also include £3.1m of exceptional restructuring costs associated with the Group's two UK businesses, mainly comprising redundancy costs, the write-down of fixed assets and office closure costs. Of this amount, £1.4m relates to Makers.

Interest

The net interest charge increased from £3.9m in 2002 to £4.2m in 2003. This increase reflects higher average net debt, as a result of the acquisitions in the second half of 2002, partly offset by lower average interest rates. Around half of the Group's net debt is subject to floating rates with the other half subject to fixed rates until September 2004. Interest cover remains comfortable at over 10 times EBITDA.

Tax

The Group's average effective tax rate, before exceptional items and amortisation of intangibles, was 39%, up from 35% in 2002. This is relatively high compared to most UK-based groups reflecting the fact that the vast majority of the Group's profits are earned in higher tax jurisdictions, in particular the United States where the effective combined federal and state tax rates are nearly 40%. The increase in the effective rate from 2002 is mainly due to incurring unrelieved 2003 taxable losses in the UK , as a result of the disappointing trading performance at Makers and the exceptional restructuring costs.

Earnings and dividends

The minority interest charge increased from £0.2m to £1.8m, reflecting the 49% minority in Keller-Terra and, to a lesser extent, an excellent year at LCM which was only 50% owned until the Group acquired the other half in January 2004. The weighted average number of shares in issue increased by 9% as a result of the shares issued in December 2002 in connection with the acquisitions of Keller-Terra and McKinney . These, combined with the lower Group profits, resulted in a decrease of 26% in adjusted earnings per share (before exceptional items and amortisation of intangibles).

Following the recommendation of an increased final dividend of 6.95p per share, the total dividend for the year is 10.4p, an increase of 5% on 2002. This is covered 2.3 times by adjusted earnings per share or 1.8 times if the recurring amortisation of intangibles is deducted.

Cash flow and net debt

Net cash inflow from operating activities was £40.0m, representing 98% of the Group's EBITDA. This compares to £43.2m and 100% in 2002. This is a pleasing outcome in a difficult year and is a testament to the ongoing strength of the Group's cash conversion and the continuing focus on cash generation. Year-end working capital was maintained at last year's levels, despite the significantly higher cost of Suncoast's raw materials and strong growth in geographies, such as southern Europe , which traditionally have higher working capital requirements.

Capital expenditure decreased marginally in the year, although the proceeds from the sale of fixed assets also fell. Net capital expenditure in the year was £13.4m, which represents 1.2 times depreciation.

After paying tax, interest and dividends, year-end net debt decreased from £68.0m at 31 December 2002 to £60.7m at the end of 2003. Of this reduction, £4.6m is due to exchange differences, mainly on the retranslation of the Group's US dollar denominated debt. This is held as a hedge against the Group's dollar denominated net assets. At the year end US dollar denominated net assets were about 80% hedged.

Net debt at the year end represents 1.5 times EBITDA. Based on net assets of £97.6m, gearing was 62%, down from 68% at the beginning of the year.

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 increased both the employee and employer contribution rates with effect from 6 April 2002.

The transitional disclosures required by FRS 17 are shown in note 29 of these financial statements. These show that, as at 31 December 2003 , the pre-tax deficit in the UK scheme was £6.0m on an FRS 17 basis, down from £6.5m at the end of 2002.

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 creditors 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). These accounts have not been significantly impacted by any new accounting standards.

Looking forward, the Group's accounts must comply with International Financial Reporting Standards (IFRS) with effect from 2005. The Group has performed an initial review of the extent to which the differences between UK GAAP and IFRS might impact its accounts. This exercise indicates that, while there will be some significant changes in disclosure, the impact of differences between existing UK and IFRS is not likely to be material to the Group's results. However, the International Accounting Standards Board, which develops and issues IFRSs, has significant ongoing projects that could affect the differences between current UK GAAP and IFRS. The actual impact on the Group's financial statements of the adoption of IFRS will therefore depend on the standards applicable and the particular circumstances prevailing on 1 January 2005 .