Keller Group plc
Annual Report and Accounts 2003

KELLER

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)

2003	567.5
2002	511.0
2001	422.2
2000	313.0
1999	314.9

Turnover

£567.5m

Profit before tax (£m)*

2003	28.7
2002	30.4
2001	23.6
2000	16.9
1999	19.0

Profit before tax*

£28.7m

Earnings per share (p)*

2003	24.1
2002	32.7
2001	25.8
2000	19.0
1999	21.2

Earnings per share*

24.1p

* before exceptional items and amortisation of intangibles

Chairman's statement
Dr Michael West

In recognition of the strong fundamentals of our core business and our confidence in the future performance of the Group, the board is again recommending an increased final dividend.

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. We 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 ten 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.

North America
Hayward Baker uses 8-foot diameter soil mix columns to support 310-foot diameter oil storage tanks in marshlands in southern Louisiana.

Europe
Keller Grundbau treats settlement using its "Soilfrac" compensation grouting system during tunnelling below the main train station at Antwerp, Belgium.

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 (52) 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 adjusted 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.

Dr Michael West
Chairman
11 March 2004

Keller today

Turnover
£567.5m

Operating profit*
£32.8m

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 4,600 employees, operating across five continents.

In a Financial Times report, "World's Most Respected Companies", published in January 2004, Keller was rated one of the most respected engineering companies in the world – the only UK company to be so rated.

www.keller.co.uk

*before exceptional items
and amortisation of intangibles

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.

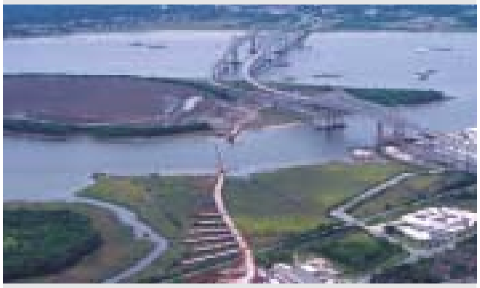
Structural restoration

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

North America

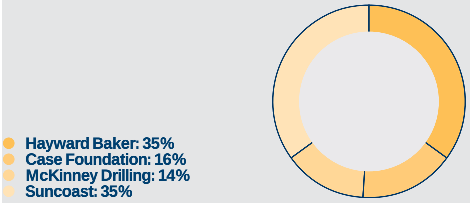
Turnover
£270.4m
+11%

Operating profit*
£19.3m
-13%

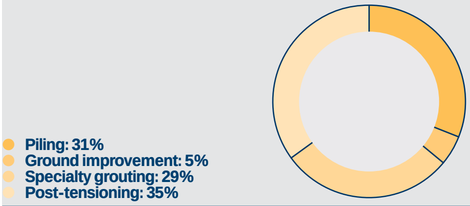


Cooper River Bridge, South Carolina, USA.

Sales by business unit



Sales by type of service



Our brand names

Hayward Baker
www.haywardbaker.com

Case Foundation
www.casefoundation.com

McKinney Drilling
www.mckinneydrilling.com

Suncoast
www.suncoast-pt.com

United Kingdom

Turnover

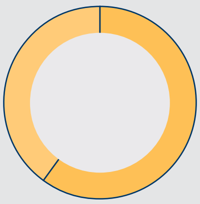
£103.9m
-3%

Operating profit*

£0.5m
-88%

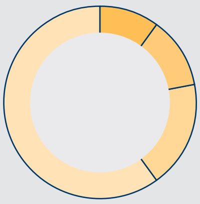
Retail park development adjacent to Belfast's City Airport, UK.

Sales by business unit



- Makers: 60%
- KGE: 40%

Sales by type of service



- Piling: 10%
- Ground improvement: 12%
- Specialty grouting: 18%
- Structural restoration: 60%

Our brand names

Keller Ground Engineering
www.keller-ge.co.uk

Makers
www.makers.co.uk

*before exceptional items and amortisation of intangibles

Continental Europe & Overseas

Turnover

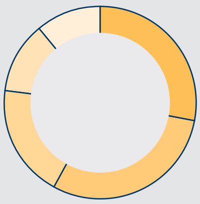
£165.2m
+22%

Operating profit*

£13.8m
+72%

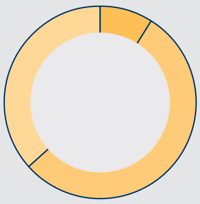
Detached residence in the Ruhr area of Germany.

Sales by business unit



- Central Europe: 28%
- South West Europe: 30%
- South East Europe: 19%
- Overseas: 12%
- New Business: 11%

Sales by type of service



- Piling: 9%
- Ground improvement: 55%
- Specialty grouting: 37%

Our brand names

Keller
www.kellergrundbau.com

Keller-Terra
www.kellerterra.com

LCM
www.lcm.se

Wannenwetsch

Australia

Turnover

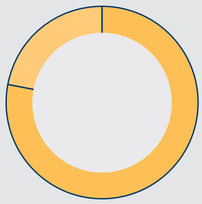
£27.9m
+7%

Operating profit*

£2.0m
+11%

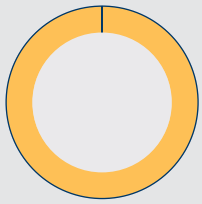
Site of "The Circle on Cavill", Queensland, Australia.

Sales by business unit



- Franki: 78%
- Vibropile: 22%

Sales by type of service



- Piling: 100%

Our brand names

Frankipile
www.frankipile.com.au

Vibropile
www.vibropile.com.au


Focused

"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."

Operating review, page 23

Specialist with a tight focus

Specialist ground engineering
Keller has developed ground engineering techniques that are now widely accepted in the construction industry. It designs and builds most of its specialist equipment for the Group's exclusive use and commercial advantage.

Niche provider, with few international competitors
Operating in a specialist niche of the construction market, Keller has only a small number of international competitors from whom Keller is differentiated by its highly decentralised business model, its broad range of techniques and its truly global profile. Keller has no UK quoted peer.

Industry-leading margins and return on capital
Keller's reputation for reliability, together with its efficient productivity, contracts profile and cost-effective structure, earn the Group premium margins. Over the past seven years, it has consistently delivered operating margins of 5.7% to 6.7% and return on capital employed of around 20%.

Deep

"At the heart of this track record is a team of quality people with huge expertise and an in-depth knowledge of the industry."

Chairman's statement, page 3

Experienced people with deep industry knowledge

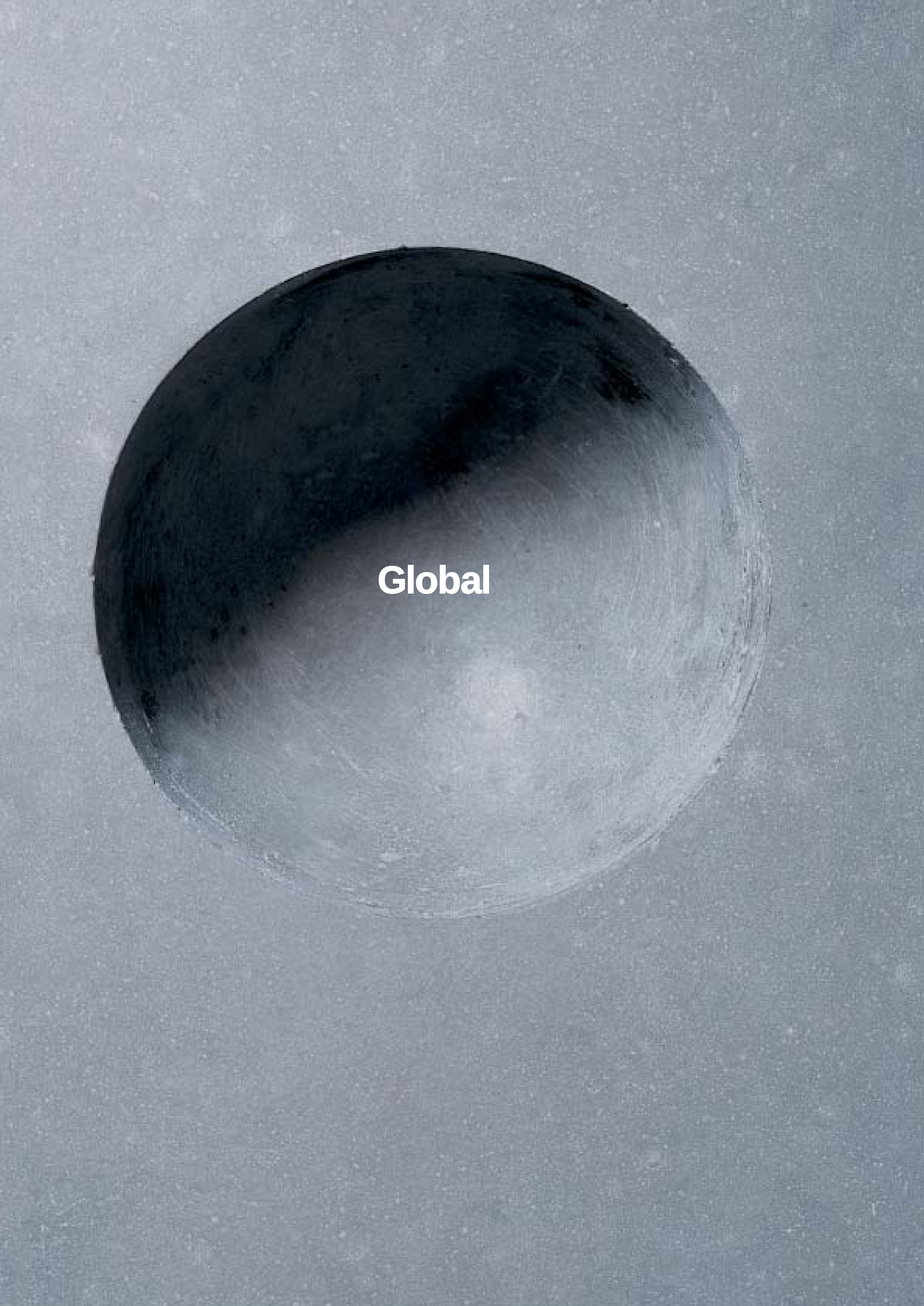
Strength in depth through long serving management and employees
10% of Keller employees are qualified engineers. Keller attracts quality people who are motivated by the culture of empowerment, excellent job support, good reward and recognition and opportunities for career growth. The average length of service, including field personnel, is eight years.

Decentralised management structure allows decisions to be taken locally and improves responsiveness
Individual businesses enjoy a high degree of autonomy, allowing them to respond quickly to their customers' needs and changes in their marketplace. A clear control framework ensures that risks are managed at the most appropriate level in the organisation.

Acknowledged industry experts in ground behaviour
Keller's engineers and project managers worldwide share knowledge and reinforce relationships with industry peers through the presentation of technical papers, the organisation of presentations and seminars and the provision of on-line support tools.

Able to match the process to the engineering task in hand
Keller understands the need for proactive communication with its clients, with whom it collaborates to find the best and most cost-effective solution from an informed engineering and construction viewpoint.

Global



“Our operations in Austria and Italy achieved good results and we made further progress in penetrating the small, but growing, Eastern European market.”

Operating review, page 20

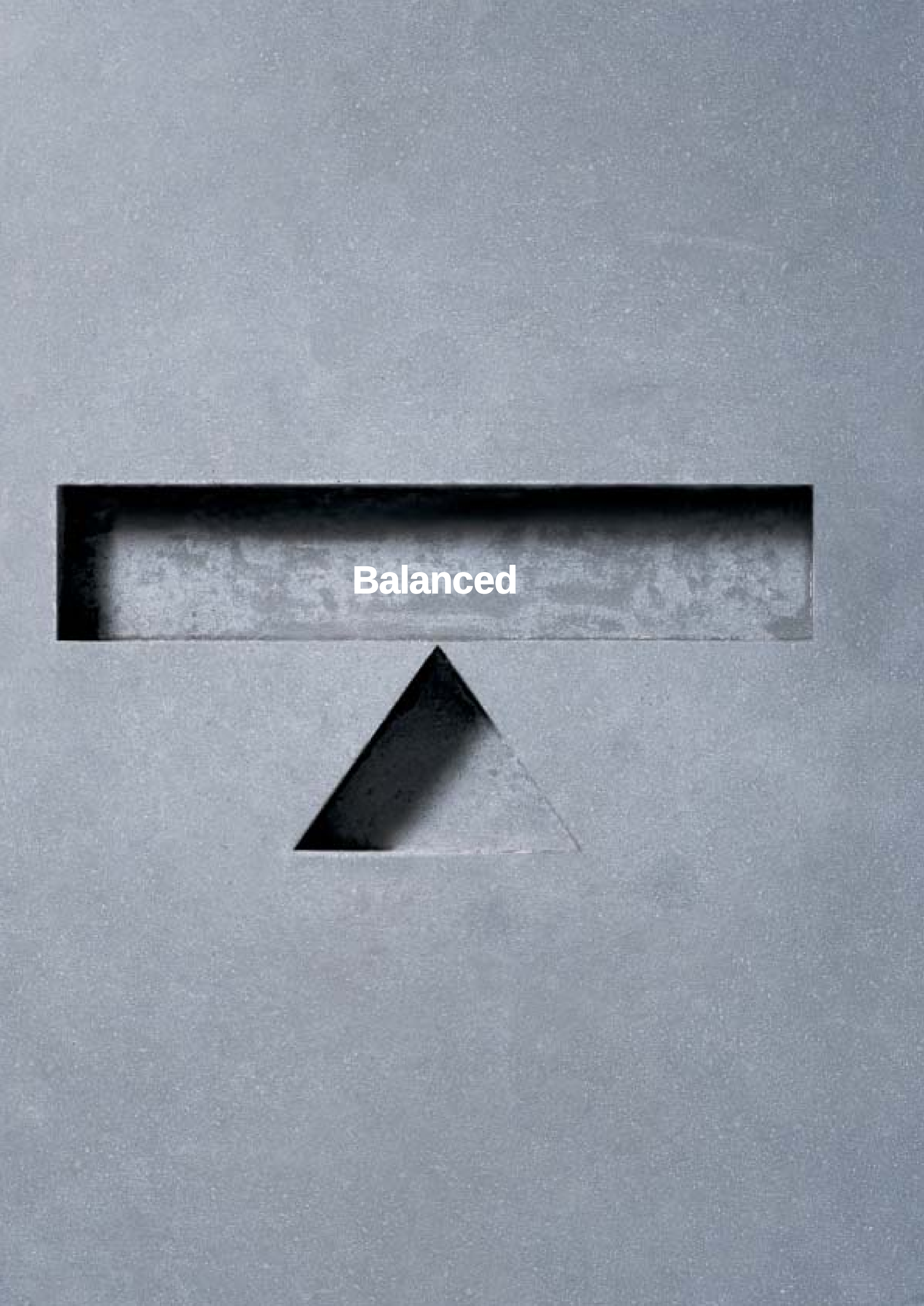
Global business, but with strong local knowledge and presence

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

Operating on five continents
In 2003 around 48% of Keller Group sales were earned in North America. A further 44% of sales came from 15 countries in Europe, with 8% of sales generated in 13 countries in the Middle East, Asia and Australasia.

Global spread diversifies economic and political risk
Changes in Keller’s geographic profile over time illustrate the Group’s success in moving into new and growing geographic markets. The Group’s unique global spread protects against national and even continental economic and political cycles.

Access to local markets through highly developed and strong regional structure
Keller’s structure of regional businesses staffed by local employees who understand the customs, regulations and culture, allows the Group to compete effectively in local markets and to access lower risk, small-to-medium sized contracts.


Balanced

"In contrast to its capacity to win and undertake large, high profile contracts, Hayward Baker's sales continue to be dominated by lower-risk, small and medium sized contracts."

Operating review, page 19

Well balanced with broad markets and customer base

Mix of contracts from small to large, public to private, new-build to refurbishment
Around 30% of Keller contracts undertaken in 2003 were in the public sector, of which two thirds were new-build projects and one third was refurbishment. Of the private sector contracts, 80% were new-build.

Small-to-medium-sized contracts predominate, providing better spread of contract risk
Keller undertook over 6,900 contracts during the year, of which 80% had a value of less than £150k; 13% had a value of £150k to £600k and 6% had a value of £600k to £1m. The average contract size was around £80k.

Also able to undertake complex, multi-million pound contracts
Around 70 of Keller's 2003 contracts had a value of over £1m. These included soil mixing to stabilise a site for fuel storage tanks in the US; grouting at a railway tunnel in Germany; and foundations for a new railway in Malaysia.

Broad

"The Gold Coast Convention Centre was the largest compaction grouting project ever carried out in Australia, for which Franki drew on technology developed elsewhere in the Group."

Operating review, page 23

Broad range of industry-leading technologies and processes

Unrivalled range of geotechnical processes at the Group's disposal
Keller offers an exceptional range of solutions for foundation support and rehabilitation, settlement control, structural support, ground improvement, soil and slope stabilisation, underpinning, excavation shoring, earth retention, seismic stabilisation or ground water control.

Able to combine processes to produce cost-effective solutions
A combination of techniques may be used on a single site, to reflect different ground conditions or to support a variety of structures. A customised package of processes can provide the most flexible and cost-effective overall site solution.

Technology transfer between Group companies and between countries
Through Keller's Technology Committee, know-how and innovations are shared across the Group. New techniques can be introduced into geographic markets in the knowledge that support is available elsewhere in the Group from engineers experienced in those techniques.

R&D focus on technical innovation
Keller's proactive R&D programme is focused on designing technically advanced, specialist equipment both to deliver productivity improvements and to extend the range of techniques available, which help to maintain Keller's competitive edge.


Growing

"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."

Chairman's statement, page 3

Good long-term growth record and prospects

Turnover and profits have grown almost four-fold in the past ten years
Keller has maintained a compound annual growth rate in adjusted EPS of around 10% since flotation, with an almost four-fold increase in turnover from £148m in 1993 to £567m in 2003. Operating profit over the same period has grown from £9.2m to £32.8m.

Solid organic growth with strong track record of acquisition success
Many sellers of local companies see Keller as the buyer of choice, given its record of developing acquired companies, whilst retaining their individual character. This "virtuous acquisition circle" assists integration and is one of the keys to Keller's acquisition success.

Acquisitions bring access to new technologies or territories
Two recent acquisitions illustrate Keller's acquisition strategy: the purchase of LCM provided access to lime column technology, which can be transferred into Keller's markets outside Sweden, whilst the investment in Keller-Terra provided entry into the Spanish market for Keller's ground improvement technology.

Industry fragmentation continues to offer opportunities
Despite its dominant position, Keller's combined foundation business in the US represents only 10% of the highly fragmented US market. Opportunities for growth through further consolidation in the US are matched in many other parts of the world.

Operating review
Tom Dobson
Justin Atkinson

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.

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 team 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.

North America
Concrete placement for a 190 mm post-tensioned foundation slab supplied by Suncoast for a single family residence in Phoenix, Arizona.

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;
— 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 1,300 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.

Operating review
Tom Dobson
Justin Atkinson

Europe
Keller-Terra uses micropiles and horizontal drains to stabilise the slopes of the new Cantabrico Highway between Lieres and Villaviciosa in the province of Asturias, Spain.

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 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.

North America
Case Foundation installs a reinforced concrete diaphragm wall and internal bracing system to allow construction of an underground storage facility at the Field Museum in Chicago.

North America
McKinney Drilling constructs drilled piers for the Capitol Visitors' Center, Washington DC.

Far East
Keller uses its "Vibro Replacement" technique to stabilise the foundations for the new high speed electrified railway line between Rawang and Ipoh in Malaysia.

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.

Operating review
Tom Dobson
Justin Atkinson

UK
KGE uses "Soilcrete" jet grouting to underpin an eight-storey structure, allowing construction of a seven-metre deep basement at a London University building in Torrington Place, London.

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 50th 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.

UK
Completed show flat for key workers in Camden's Isokon Building, a 1930's Modernist building under refurbishment by Makers, London.

Australia
Franki installs pre-cast piles for the 37-storey Melbourne & City Towers residential apartments in the Southbank area of Melbourne.

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 overheated 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;
— 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.

Tom Dobson
Chief Executive

Justin Atkinson
Chief Operating Officer
11 March 2004

Financial review
James Hind

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.

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.

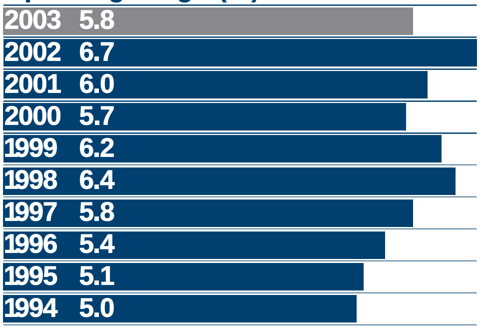
Interest

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 ten times EBITDA.

Tax

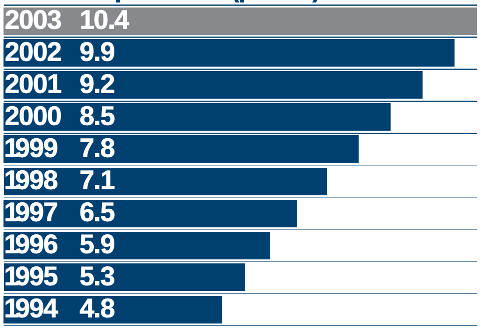
The Group's average effective tax rate, before exceptional items and amortisation of intangibles, was 39%, up from 35% in 2002. This is relatively high compared to most UK-based groups reflecting the fact that the vast majority of the Group's profits are earned in higher tax jurisdictions, in particular 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.

Operating margin (%)*



* before exceptional items and amortisation of intangibles

Dividend per share (pence)



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 has subsequently increased both the employee and employer contribution rates.

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 GAAP and IFRS is not likely to be material to the Group's results. However, the International Accounting Standards Board, which develops and issues IFRS, 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.

James Hind
Finance Director
11 March 2004

Board of directors

Dr J M 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 66.

T Dobson
Chief executive. Joined the Group in 1966. President of North American operations 1986–99, now chairman. Appointed director of Keller Group in 1990, managing director in 1995 and chief executive in 1997. Age 61.

J R Atkinson
Chief operating officer. Joined the Group in 1990. Group financial controller from 1995–99. Appointed finance director in 1999 and chief operating officer on 6 March 2003. Member of the Nomination Committee. Age 43.

R M 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 on 6 March 2003. Age 52.

J W G 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 39.






Dr W 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 on 28 November 2003. Age 53.

P J Lopez Jimenez
Non-executive director. Appointed to the board on 14 January 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 61.

E G F Brown
Non-executive director. Appointed to the board on 13 December 2001. Member of the Remuneration, Audit and Nomination Committees. From 1998 to 2000, he was 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 59.

R T Scholes
Non-executive director. Appointed to the board on 7 February 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 Holdings Plc, Crest Nicholson Plc and Marshalls plc. Age 58.

K F 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 61.

Dr K Bond
Non-executive director. Re-appointed to the board on 30 October 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 53.

Financial content

Directors' report

The directors present their report, together with the audited accounts for the year ended 31 December 2003.

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 £14,806,000 (2002: £27,330,000), are set out on page 44.

The directors recommend a final dividend of 6.95p per share to be paid on 28 June 2004, to members on the register at the close of business on 28 May 2004. An interim dividend of 3.45p per share was paid on 31 October 2003. The total dividend for the year of 10.4p (2002: 9.9p) will amount to £6,768,000 (2002: £6,284,000).

Directors
The names and biographical details of the directors who hold office at the date of this report are given on pages 26 and 27. All served throughout the year, with the exceptions of Mr Lopez Jimenez, who was appointed on 14 January 2003, Mr Rubright, who was appointed on 6 March 2003, Mr Hind, who was appointed on 15 July 2003, Dr Bond, who was appointed on 30 October 2003 and Dr Sondermann, who was appointed on 28 November 2003.

Mr Ewen, who was appointed to the board on 6 March 2003, resigned on 28 November 2003.

Retirement and re-election
Dr West and Mr Payne retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

Mr Hind, Dr Bond and Dr Sondermann, who have been appointed since the last Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, will offer themselves for election. Details of the service contracts of directors who served during the year are contained in the remuneration report, together with details of their remuneration and benefits and their interests in the shares of the Company.

Substantial shareholdings
At 11 March 2004, 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	16,284,242	25.03
Terratest Tecnicas Espéciales S.A.	5,209,000	8.00
Legal & General Investment Management Ltd	2,659,603	4.08
Prudential Corporation	2,182,333	3.36
Dr J M West	1,968,000	3.02

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 are 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 and at 31 December 2003 the principal value of forward exchange contracts amounted to £588,000 (2002: £602,000).

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.

In addition, interest rates have been fixed on approximately 55% of central banking facility borrowings until 5 September 2004 by the use of swaps.

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 40 to 42 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 33 to 39.

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 2003 the Group had 62 days' (2002: 67 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 £8,000 (2002: £6,000).

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 31 and 32.

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 on pages 67 and 68.

Resolution number 10 – 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 11 and 12 – 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 11 and 12 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 £2,166,822 which is equal to approximately 33.3% of the issued ordinary share capital at 11 March 2004.

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 £325,348, representing about 5% of the issued ordinary share capital at 11 March 2004 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 compliance with the 2002 purchase agreement for Keller-Terra S.L., subject to which it is probable that the Company will issue shares to the value of about £680,000 in the first half of 2004, and in connection with the executive share option arrangements.

The authority sought by resolutions 11 and 12 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 13 – 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.

Resolution numbers 14, 15 and 16 – Performance share plan

These resolutions are explained in the Appendix to the chairman's letter to shareholders dated 11 March 2004.

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
11 March 2004

Social responsibility

Environment

Bringing benefits to the environment

The Keller Group recognises the impact of its business on the environment, with many of its 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.

At Keller Ground Engineering (KGE), the commitment to improving and conserving the natural environment led to the appointment in 2003 of two new environmental specialists to augment the existing geoenvironmental team. KGE made good progress during the year with its permeable reactive barrier (PRB) system for the control of contaminated ground water, which is being used in a large clean up operation at the site of a former textiles facility in Northern England. More traditional methods of controlling contaminated ground water, such as slurry cut-off walls, continue to be offered as effective and economic alternatives.

Group companies were involved in various 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, in Poland we installed slurry walls on dams along the river Wisla, in Germany we installed a cut-off membrane wall on a dam along the Rhine, whilst Keller-Terra was involved in the grouting of dams in the Navarre, Lerida, Orense and Zaragoza regions.

Our Makers business is working 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 positive impacts of many of the schemes in which we are involved, we do recognise that many of our site activities have environmental effects. 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 Australia, Franki has invested in two new “silenced” hydraulic hammers, which have significantly reduced noise levels and the impact on the environment, whilst Vibropile has developed in-house vibration free systems for areas where driven piles are prohibited. Both of these companies use 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, which have their own environmental policies, have each adopted a system that reflects local regulations, culture and business needs. In Australia, for example, Franki has 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 Franki’s activities and providing an in-house contact who will discuss their concerns.

The KGE environmental management system, which complies with ISO14001, is now fully integrated with other business processes. An “environmental performance” satisfaction rating was added to KGE’s customer satisfaction survey at the start of 2003 which is providing an independent measurement of performance to complement the internal review and external audit processes.

Working with the community

Most 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 prides itself in having an effective dialogue with residents, which includes the distribution of site brochures (often in several languages) to advise residents on how they will be affected by their works.

Health and safety

As with environmental management systems, there is no single health and safety management system across the Group, as each business is subject to different safety standards and regulations. There is, however, a strong safety culture within all the businesses, which means that safety features high on the senior management agenda, safety training at all levels is taken very seriously and, on the ground, significant resources are dedicated to inspecting job sites for potential hazards and giving on site “toolbox talks” to ensure that safety awareness governs the daily work activities.

In North America, a company’s safety record, relative to other businesses, is measured through the experience modification rating (EMR). A low score indicates a good safety record. In 2003 the combined EMR for Hayward Baker, Case and McKinney was 0.73, against an industry standard rating of 1.00 and a previous year’s rating (Case and Hayward Baker only) of 0.69.

All our North American operations continue to achieve incident rates, as calculated by the Bureau of Labor Statistics, significantly below the industry average. For example, in 2003 the recordable incident rate for Hayward Baker was 1.3, against the national construction industry average of 7.1, per 100 workers.

Social responsibility continued

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 and have implemented various proactive programmes such as pre-job hazard analysis, project specific safety plans and task specific training, in an effort to reduce or eliminate exposure to risk.

The key safety objective for our operations in Australia is to achieve zero lost-time injuries. Franki and Vibropile recorded nine and seven lost-time injuries respectively, down from 12 and eight in 2002. Incident and frequency rates remain below the national construction industry average.

In our Continental Europe and 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 international standards.

In the UK, KGE saw a decrease in the number of reportable accidents in 2003 to 13 (2002: 20) with a decrease in the number of three-day accidents and an increase in major injury accidents. This resulted in a reduced accident frequency rate (AFR) of 11.6 (2002: 15.6) and an accident incident rate (AIR) of 2,781 (2002: 3,690). By the end of 2003, 100% of all KGE site employees had attained the Construction Skills Competency Scheme certificate of training achievement.

Makers recorded an increase in the total number of accidents reported through the accident reporting procedure to 139 (2002: 98). The number of accidents reported to the Health & Safety Executive (“HSE”) reduced to 16 (2002: 18), despite an increase in the number of people on site from 725 in 2002 to 889 in 2003. The AFR reduced to 0.87 (2002: 1.13) and the AIR reduced to 1,799 (2002: 2,344). The AFR for 2003 was the lowest recorded since 1986 (the earliest records available) and 2003 was the first year for at least five years in which no reportable accidents involving members of the public were recorded.

The training of Makers site managers on the Construction Industry Training Board’s five-day “Site Managers’ Safety Training Scheme” continued during the year, with some 30 managers completing the course.

There were no HSE prosecutions or enforcement notices brought against either of our UK businesses in 2003 and there are none pending.

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 Insead and Harvard 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.

Remuneration report

Introduction

In preparing this report, the Committee has complied with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the original Combined Code. 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 in respect of 2004.

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, with the exception of Dr Bond, who was appointed to the Committee on 30 October 2003. 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.

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 40 to 42, the board considers Mr Brown, Dr Bond, Mr Payne and Mr Scholes to be independent directors.

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

In January 2003, New Bridge Street Consultants LLP (NBSC) were appointed by the board to advise on long-term incentive arrangements, which are discussed on page 34. They have not provided any other services to the Group.

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. Less than 20% of the total workforce is based in the United Kingdom and remuneration packages of the Group's executive management reflect local market conditions.

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 agreed the principle that basic salary should be set broadly in line with the median for executives who have sustained performance 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.

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:

(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 considers the Group as a whole and seeks to be competitive, but fair, using information provided both by external and internal sources. The Committee has agreed, and in 2004 will continue to apply, the principle that basic salary should be set broadly in line with the market median.

(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. Bonus is capped at 50% of basic salary.

The 2004 bonus targets for Mr Atkinson and Mr Hind are linked to the achievement of Group EPS, PBT and net debt targets and personal, task-based objectives. The 2004 bonus targets for Mr Rubright and Dr Sondermann are linked to the achievement of divisional operating profit and net debt targets, Group EPS and PBT targets and personal, task-based objectives.

Remuneration report continued

Actual financial performance targets for 2004 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.

Current share option arrangements
Since 2001, the Group has operated an Inland Revenue approved executive share option plan and an unapproved executive share option plan (the 2001 Plans). The 2001 Plans, and associated performance criteria, were approved by shareholders at the 2001 Annual General Meeting. Under the 2001 Plans, options may be, and have been, granted annually, subject to the market value of shares over which options are granted in any 12-month period not exceeding the value of the executive's annual basic salary. Options granted under the 2001 Plans may be exercised subject to the Company achieving real EPS growth over any three-year period of not less than 4%.

During 2003, the Committee carried out a review of long-term incentive arrangements for senior managers and concluded that the current share option arrangements should be replaced with a Performance Share Plan. The Committee considers that granting conditional awards of shares (Performance Share Awards), which vest after three years subject to the achievement of stretching performance conditions, will provide a better link between performance and reward. It is the Committee's current intention that no further share options will be granted if the proposed new Performance Share Plan is approved.

Proposed new Performance Share Plan
Summarised below are the key features of the proposed new Performance Share Plan, for which shareholder approval will be sought at the forthcoming Annual General Meeting. It is anticipated that, subject to shareholder approval, Performance Share Awards will be granted to senior executives immediately following the Annual General Meeting.

The Committee has determined that initial awards under the plan will be over shares with a value of no more than 50% of an eligible employee's annual basic salary.

Performance Share Awards will be released to executives after three years, subject to demanding performance conditions being met. The Committee has considered the most effective measure of performance for this purpose and has concluded that, for grants in 2004, 50% of a Performance Share Award should be conditional on targets based on growth in earnings per share before amortisation of goodwill and exceptional items (EPS) and the remaining 50% should be based on relative total shareholder return (TSR), against a comparator group of similar businesses. Under this approach, in order for awards to be released in full, there must be strong financial performance as well as stock market outperformance.

Initially, the following EPS growth targets will apply:

For half of the shares subject to a Performance Share Award EPS Growth (average over 3 years)	Proportion of shares that vest
Less than RPI + 4% p.a.	0%
RPI + 4% p.a.	40%
RPI + 9% p.a.	100%
Between RPI + 4% p.a. and RPI + 9% p.a.	between 40% and 100% on a straight line basis

TSR performance will be 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 Relative TSR (after 3 years)	Proportion of shares that vest
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 will be measured over a single three-year period. To the extent that the targets are not achieved, the award will lapse. TSR calculations will be independently performed for the Committee by NBSC.

Further details of the plan, and the reasons why it is recommended by the Committee, are given in the chairman's letter to shareholders dated 11 March 2004.

(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, who has a normal retirement age of 62, 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, subject to Inland Revenue limits. 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.

Mr Dobson, Mr Hind and Mr Rubright are members of defined contribution schemes.

Remuneration report continued

(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. In addition, the Company pays the accommodation costs in the UK for Mr Dobson, whose main home is in the US.

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
R J T Ewen	6 March 2003	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, £35,000 was paid to Mr K Kirsch and £30,000 was paid to Mr M W C Martin, both former directors of the Company, for consultancy services provided to Group companies.

The board may allow executive directors to accept external appointments, provided that the Company retains any related remuneration.

Non-executive directors

All non-executive directors have specific terms of engagement, the dates of which are set out below, with an initial appointment period of 12 months and thereafter subject to three months' notice by either party. There are no provisions for compensation payable in the event of early termination. All directors offer themselves for re-election at least every three years.

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

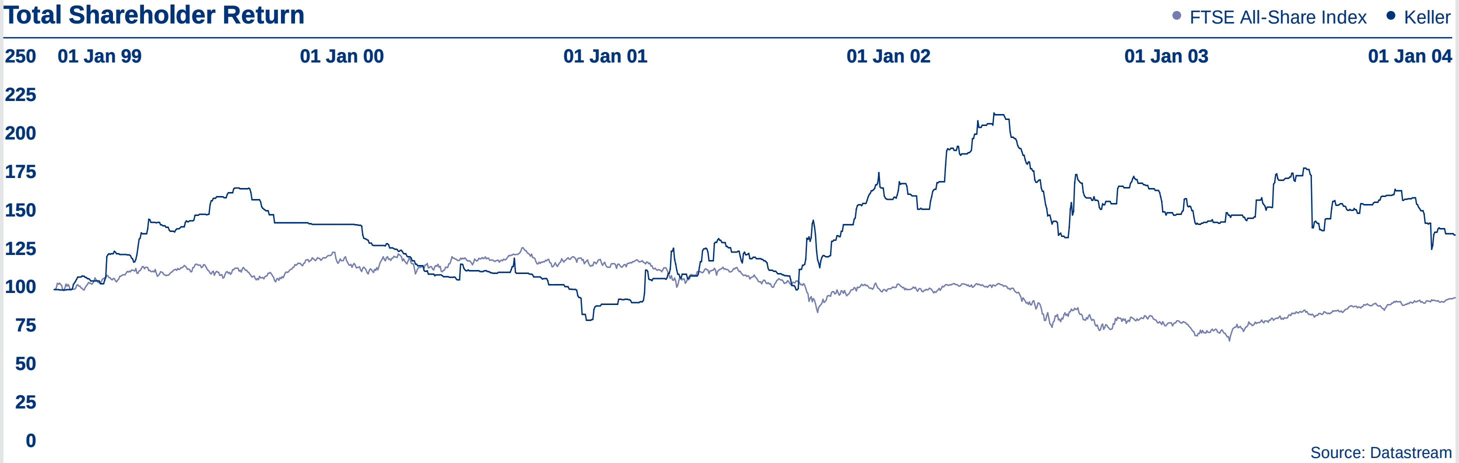
The determination of the non-executive directors' remuneration has been delegated by the board to the executive directors, within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The fees paid to non-executive directors in the year, shown on page 36, are inclusive of the additional work performed for the Company in respect of membership of the board committees. Non-executive directors cannot participate in any of the Company's short or long term incentive arrangements.

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 2003, of £100 invested in Keller on 31 December 1998 compared with the value of £100 invested in the FTSE All-Share Index.

Total Shareholder Return



Remuneration report continued

Audited information

Directors' emoluments for the year ended 31 December 2003

	Basic salary 2003 £000	Fees 2003 £000	Benefits 2003 £000	Annual bonus 2003 £000	Total emoluments 2003 £000	Total emoluments 2002 £000
Executive						
J R Atkinson	**216**	**–**	**15**	**22**	**253**	209
T Dobson	**248**	**–**	**51**	**–**	**299**	362
R J T Ewen	**128**	**–**	**9**	**–**	**137**	–
J W G Hind	**76**	**–**	**5**	**8**	**89**	–
R M Rubright	**168**	**–**	**9**	**54**	**231**	–
Dr W Sondermann	**11**	**–**	**1**	**64**	**76**	–
Non-executive						
Dr K Bond	**–**	**4**	**–**	**–**	**4**	8
E G F Brown	**–**	**24**	**–**	**–**	**24**	23
P Lopez Jimenez	**–**	**23**	**–**	**–**	**23**	–
K F Payne	**–**	**24**	**–**	**–**	**24**	23
H Peipers	**–**	**–**	**–**	**–**	**–**	8
R T Scholes	**–**	**24**	**–**	**–**	**24**	21
Dr J M West	**–**	**70**	**16**	**–**	**86**	82
	847	**169**	**106**	**148**	**1,270**	736

Included in the above were fees amounting to £24,000 paid to G. Brown Associates Limited in respect of services provided by Mr Brown and fees amounting to £23,000 paid to Fapindus, S.L. in respect of services provided by Mr Lopez Jimenez.

The emoluments shown above for Mr Ewen relate to the period from 6 March 2003, his date of appointment as a director, to 28 November 2003, when he stood down from the board. On 12 December 2003 notice of termination was served under Mr Ewen's service contract. Mr Ewen will continue to receive a monthly salary as an employee until the expiry of his 12 months' notice period.

Apart from bonuses, the emoluments for Mr Hind, Dr Bond and Dr Sondermann relate to the periods from their dates of appointment as directors to 31 December 2003. The bonuses for Mr Rubright and Dr Sondermann, who were employed by the Group prior to their appointments as directors, relate to the full year.

A maximum annual cash bonus of 50% of basic annual salary was set for the year ended 31 December 2003. The 2003 bonus targets for Mr Atkinson and Mr Dobson were linked to the achievement of Group EPS and PBT targets and personal, task-based objectives. The 2003 bonus targets for Mr Rubright and Mr Ewen were linked to the achievement of Group EPS and PBT targets, a divisional operating profit target and personal, task-based objectives. The 2003 bonus target for Dr Sondermann was linked to the achievement of a divisional operating profit target and personal, task-based objectives. The bonus awarded to Mr Hind reflects his achievement against personal objectives in the period since his appointment on 15 July 2003.

The baselines for the 2003 Group financial performance targets, at which no bonus was payable, were set at PBT of £30.0m and EPS of 31.0p. The financial performance targets attracting maximum bonus are considered commercially sensitive and are not, therefore, disclosed. No bonuses were awarded in respect of the Group financial performance targets.

Remuneration report continued

Directors' shareholdings

The directors' interests in the issued ordinary share capital of the Company were:

Director	At 31 December 2003 Ordinary shares	At 31 December 2002 Ordinary shares
J R Atkinson	**42,608**	28,315
T Dobson	**939,031**	919,571
P Lopez Jimenez*	**4,959,000**	–
K Payne	**10,739**	8,588
R M Rubright	**40,000**	–
R T Scholes	**5,000**	–
Dr W Sondermann	**18,525**	–
Dr J M West	**1,968,000**	1,948,000

* Shares are registered in the name of Terratest Tecnicas Espéciales SA (Terratest), a connected person of Mr Lopez Jimenez. During the period from the end of the financial year to 11 March 2004, Terratest has increased its shareholding to 5,209,000 shares. There have been no other changes in directors' shareholdings between the end of the financial year and 11 March 2004.

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 2003, amounted to 98,878 ordinary shares.

Directors' pension rights

In 2003, a pension of £138,000 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	2003 £000	2002 £000
T Dobson	**10**	7
R J T Ewen	**8**	–
J W G Hind	**8**	–
R M Rubright	**8**	–

The changes during the year in the accrued pension entitlements of Mr Atkinson under the Keller Group Pension Scheme and Dr Sondermann under the pension arrangements operated by Keller Grundbau GmbH are shown in the table below:

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	155	229	72	44	8	7	36
Dr W Sondermann	29	37	8	3	0.4	0.3	5

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.

Remuneration report continued

Directors' interests in long term incentive plans

Share options

Director	Options held at 1 January 2003	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options held at 31 December 2003	Exercise price	Dates from which exercisable	Expiry date
J R Atkinson								
1994 Scheme*	8,700	–	8,700	–	–	102.0p	26/04/98	25/04/05
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
T Dobson								
1994 Scheme*	80,000	–	80,000	–	–	102.0p	26/04/98	25/04/05
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
R J T Ewen								
Unapproved Plan								
7 May 2002	41,549	–	–	–	41,549	355.0p	07/05/05	10/12/05
13 March 2003	–	45,000	–	–	45,000	251.0p	13/03/06	12/09/06
Approved Plan								
7 May 2002	8,451	–	–	–	8,451	355.0p	07/05/05	10/12/05
J W G Hind								
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
R M Rubright								
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
Dr W Sondermann								
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

* All share options granted under the 1994 Scheme were granted on 26 April 1995.

The market value of the shares at 31 December 2003 was 218.5p and the range during the year was 203.5p to 293.0p. The market value of the shares on 6 June 2003, when Mr Atkinson exercised his option, was 285.0p, producing a gain on exercise of £15,921. The market value of the shares on 14 May 2003, when Mr Dobson exercised his option, was 281.5p, producing a gain on exercise of £143,600.

There have been no variations to the terms and conditions or performance criteria for share options 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. The table below shows awards associated with the scheme:

Director	Interests in Deferred Shares as at 1 January 2003	Matched share awards granted during the year	Market value of shares when bonus deferred	Awards vested during the year	Market value of shares when award vested	Interests as at 31 December 2003
J R Atkinson	5,923	1,481	253.0p	7,404	250.0p	nil
T Dobson	13,053	3,263	253.0p	16,316	250.0p	nil
R M Rubright	10,969	2,742	253.0p	13,711	250.0p	nil
Dr W Sondermann	6,781	1,695	253.0p	8,476	250.0p	nil

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. Over the three year period ended 31 December 2001, performance was such that on 9 March 2003, one matched share was awarded for every four Deferred Shares.

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. Potential additional matched shares vesting in March 2004 are: Mr Atkinson 1,408 shares, Mr Dobson 4,314 shares and Dr Sondermann 2,009 shares and 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
11 March 2004

Corporate governance

The Principles of Good Governance and Code of Best Practice (the "Combined Code") drafted by the Hampel Committee on corporate governance was issued in June 1998 encompassing principles previously addressed by the Cadbury and Greenbury Committees.

Section 1 of the Combined Code contains broad principles and further detailed provisions covering four main issues which all companies listed on the London Stock Exchange are expected to follow.

The directors consider that the Group has been in compliance throughout the year with the code provisions set out in Section 1 of the Combined Code.

Directors

At the start of the year, the board comprised two executive and four non-executive directors. Two additional non-executive directors were appointed during the year, Mr Lopez Jimenez on 14 January 2003 and Dr Bond on 30 October 2003. Mr Rubright and Mr Ewen were appointed as executive directors on 6 March 2003 and Mr Hind was appointed as an executive director on 15 July 2003. Mr Ewen stood down from the board and Dr Sondermann was appointed to the board on 28 November 2003. At the end of the year, the board comprised five executive and six non-executive directors.

All the non-executive directors, with the exception of Dr West and Mr Lopez Jimenez, are considered by the board to be independent of management. Mr Scholes has, within the last three years, had a business relationship with the Company as a director of Dresdner Kleinwort Wasserstein, the Company's stockbroker and financial adviser, from which Mr Scholes retired in December 2001. The board takes the view that this business relationship was not material in the context of Keller's operations. 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 Espéciales SA (Terratest), a 49% shareholder in Keller-Terra S.L. and an 8% shareholder in Keller Group plc. Whilst the board considers Mr Lopez Jimenez to be independent in character and judgement, in view of the increase in Terratest's shareholding in Keller Group plc during 2003, Mr Lopez Jimenez is no longer considered to be independent of management.

The board is comfortable that the size of the board, its balance of skills and experience and the strong presence of both executive and non-executive directors meet the needs of the business.

Mr Payne is the senior independent director. There is an agreed procedure for individual directors to obtain independent legal advice and all directors have unrestricted access to the company secretary and chairman.

There is a clear division of responsibilities between Dr West as non-executive chairman and Mr Dobson 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 under-performing 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.

The board normally meets at least nine times throughout the year to monitor the Group's performance and to take decisions based upon a schedule of matters specifically reserved for its approval. Board papers and other relevant information are supplied to directors in advance of the meetings to enable them to be properly briefed on topics to be discussed at these meetings. Site visits and management presentations are arranged periodically for non-executive directors to develop and refresh their understanding of the business.

Board Committees

Remuneration Committee

The Remuneration Committee is chaired by Mr Brown, the other members during the year, all of whom are independent of management, are shown on page 33. 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 remuneration for the non-executive directors is determined by the board. The directors' remuneration report is set out on pages 33 to 39.

Corporate governance continued

Audit Committee
Throughout the year Mr Brown, Mr Payne, Mr Scholes and Dr West were members of the Committee and Dr Bond was appointed to the Committee on 30 October 2003. Dr West stood down from the Committee with effect from 1 January 2004. The Committee is chaired by Mr Payne.

This Committee meets at least three times a year and the Company's auditors attend at least two of these meetings. 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.

During the year, the Committee considered the need for an internal audit function. The Committee concluded that the nature of the business risks, which are predominantly technical and operational, and the effectiveness of existing controls are such that an internal audit function is unlikely to add value. The Committee will regularly review this matter.

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 Payne and Mr Dobson. With effect from 1 January 2004, Mr Dobson resigned from the Nomination Committee and Mr Brown, Mr Scholes, Dr Bond and Mr Atkinson were appointed to the Committee. The Nomination Committee monitors the composition and balance of the board and recommends to the board the appointment of new directors.

The terms of reference for the Remuneration, Audit and Nomination Committees were updated with effect from 1 January 2004 and are available on the Company's website.

Relations with shareholders
Where practicable throughout the year, with the exception of closed periods, the Company meets with and makes presentations to institutional investors. All directors of the Group are available to answer questions at the Annual General Meeting, which is considered to be the most effective way of keeping private investors informed of the Group's progress. On a regular basis the board is apprised of shareholders' views through the circulation of investor perception audit reports and brokers' feedback notes.

The notice of the Annual General Meeting, detailing all proposed resolutions, will be posted to shareholders at least 20 working days prior to the meeting.

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.

Following publication of guidance for directors on internal control Internal Control: Guidance for directors on the Combined Code (the Turnbull Guidance), the board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that 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 as considered necessary. 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
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.

Corporate governance continued

Management are 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 are assessed on a continual basis and 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.

Management report on their review of risks and how they are managed to the Audit Committee. One of the roles of the Audit Committee is to review, on behalf of the board, the key risks inherent in the business and the system of control necessary to manage such risks, and to present their findings to the board. The Audit Committee reviews the assurance procedures, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the board. The Audit Committee presents its findings to the board twice yearly.

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 that includes key performance and risk indicators. Where areas for improvement are identified, the board considers the recommendations made by the Audit Committee.

On behalf of the board, the Audit Committee has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

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 44 to 65. 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 42, 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 statement on page 40 reflects the Company's compliance with the seven provisions of the Combined 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 2003 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

11 March 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Note	2003 Before exceptional items and amortisation of intangibles £000	2003 Exceptional items and amortisation of intangibles (note 2) £000	2003 Total £000	2002 Before amortisation of intangibles £000	2002 Amortisation of intangibles (note 2) £000	2002 Total £000
Turnover	2	**567,505**	**–**	**567,505**	510,971	–	510,971
Operating costs*	3	**(534,667)**	**(13,881)**	**(548,548)**	(476,627)	(3,100)	(479,727)
Operating profit	2	**32,838**	**(13,881)**	**18,957**	34,344	(3,100)	31,244
Net interest payable	5	**(4,151)**	**–**	**(4,151)**	(3,914)	–	(3,914)
Profit on ordinary activities before taxation		**28,687**	**(13,881)**	**14,806**	30,430	(3,100)	27,330
Taxation	6	**(11,211)**	**510**	**(10,701)**	(10,684)	–	(10,684)
Profit on ordinary activities after taxation		**17,476**	**(13,371)**	**4,105**	19,746	(3,100)	16,646
Equity minority interests		**(1,846)**	**–**	**(1,846)**	(233)	–	(233)
Profit for the financial year		**15,630**	**(13,371)**	**2,259**	19,513	(3,100)	16,413
Dividends paid and proposed	7	**(6,768)**	**–**	**(6,768)**	(6,284)	–	(6,284)
Retained (loss)/profit for the financial year	20	**8,862**	**(13,371)**	**(4,509)**	13,229	(3,100)	10,129
Basic earnings per share	8			**3.5p**			27.5p
Diluted earnings per share	8			**3.5p**			27.3p
Adjusted earnings per share**	8	**24.1p**			32.7p		
Dividend per share	7			**10.4p**			9.9p

* Operating costs in 2003 include exceptional items of £10,444,000 (2002: £Nil).
** Adjusted earnings per share is calculated before exceptional items and amortisation of intangibles.

The Group's 2003 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 2003

	Note	2003 £000	2002 £000
Profit for the financial year		**2,259**	16,413
Currency translation differences on overseas investments	20	**(136)**	(107)
Total recognised gains and losses relating to the year		**2,123**	16,306

The notes on pages 48 to 65 form part of these accounts.

Consolidated balance sheet
as at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Positive goodwill	9	**57,493**	68,529
Negative goodwill	9	**(734)**	(2,239)
		56,759	66,290
Other intangible assets	10	**287**	374
Intangible assets		**57,046**	66,664
Tangible assets	11	**82,169**	79,815
Investments	12	**–**	–
		139,215	146,479
Current assets			
Stocks	13	**16,885**	15,147
Debtors	14	**137,855**	143,897
Cash at bank and in hand	25	**21,511**	16,206
		176,251	175,250
Creditors: amounts falling due within one year	15	**(147,047)**	(141,404)
Net current assets		**29,204**	33,846
Total assets less current liabilities		**168,419**	180,325
Creditors: amounts falling due after more than one year	16	**(58,438)**	(72,341)
Provisions for liabilities and charges	17	**(12,358)**	(7,840)
Net assets	2	**97,623**	100,144
Capital and reserves			
Called up share capital	19	**6,507**	6,498
Share capital to be issued	19	**680**	–
Share premium account	20	**35,374**	35,293
Capital redemption reserve	20	**7,629**	7,629
Profit and loss account	20	**41,849**	46,494
Equity shareholders' funds	21	**92,039**	95,914
Equity minority interests		**5,584**	4,230
		97,623	100,144

These accounts were approved by the board of directors on 11 March 2004 and signed on its behalf by:

J M West Chairman
J W G Hind Finance Director

The notes on pages 48 to 65 form part of these accounts.

Consolidated cash flow statement

for the year ended 31 December 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Net cash inflow from operating activities	22		**39,951**		43,171
Returns on investment and servicing of finance					
Interest received		**259**		288	
Interest paid		**(4,300)**		(4,370)	
Interest element of finance lease rental payments		**(222)**		(104)	
Payments to minority interests		**(690)**		(172)	
			(4,953)		(4,358)
Taxation					
UK corporation tax paid		**(608)**		(403)	
Overseas tax paid		**(12,187)**		(8,572)	
			(12,795)		(8,975)
Capital expenditure					
Purchase of intangible fixed assets		**(48)**		(82)	
Purchase of tangible fixed assets		**(16,670)**		(16,868)	
Sale of tangible fixed assets		**3,300**		4,250	
			(13,418)		(12,700)
Acquisitions and disposals					
Acquisition of subsidiary undertakings		**421**		(32,941)	
Net cash acquired with subsidiary undertakings		–		899	
			421		(32,042)
Equity dividends paid			**(6,534)**		(5,609)
Net cash inflow/(outflow) before management of liquid resources and financing			**2,672**		(20,513)
Management of liquid resources					
Repayments from/(payments into) short term bank deposits			**885**		(61)
Financing					
Issue of new shares		**90**		13,621	
New bank loans drawn		**5,640**		72,555	
Repayment of bank loans and loan notes		**(11,552)**		(54,759)	
Sale and leaseback transactions		**377**		739	
Capital element of finance lease rental payments		**(1,547)**		(902)	
Net cash (outflow)/inflow from financing			**(6,992)**		31,254
(Decrease)/increase in cash in the year	23		**(3,435)**		10,680

The notes on pages 48 to 65 form part of these accounts.

Company balance sheet

as at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Investments	12	**44,486**	31,439
Current assets			
Debtors*	14	**87,498**	96,906
Cash at bank and in hand		**247**	560
		87,745	97,466
Creditors: amounts falling due within one year	15	**(23,950)**	(17,700)
Net current assets*		**63,795**	79,766
Total assets less current liabilities		**108,281**	111,205
Creditors: amounts falling due after more than one year	16	**(44,544)**	(56,534)
Net assets		**63,737**	54,671
Capital and reserves			
Called up share capital	19	**6,507**	6,498
Share capital to be issued	19	**680**	–
Share premium account	20	**35,374**	35,293
Capital redemption reserve	20	**7,629**	7,629
Profit and loss account	20	**13,547**	5,251
Equity shareholders' funds		**63,737**	54,671

* Debtors and net current assets include debtors recoverable after more than one year of £65,784,000 (2002: £76,067,000).

These accounts were approved by the board of directors on 11 March 2004 and signed on its behalf by:

J M West Chairman
J W G Hind Finance Director

The notes on pages 48 to 65 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 £2,259,000 a profit of £15,064,000 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 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 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:

	2003	2002
US dollar: average for year	**1.64**	1.50
US dollar: year end	**1.78**	1.60
Australian dollar: average for year	**2.52**	2.77
Australian dollar: year end	**2.38**	2.84
Euro: average for year	**1.45**	1.59
Euro: year end	**1.42**	1.53

Notes to the accounts continued

2 Segmental analysis

Turnover and operating profit may be analysed as follows:

	2003 Turnover £000	2003 Operating profit before exceptional items and amortisation of intangibles £000	2003 Operating profit £000	2002 Turnover £000	2002 Operating profit before amortisation of intangibles £000	2002 Operating profit £000
United Kingdom	**103,976**	**538**	**(10,317)**	106,738	4,323	3,947
The Americas	**270,447**	**19,305**	**16,890**	242,567	22,338	19,536
Continental Europe and overseas	**165,204**	**13,812**	**13,180**	135,599	8,042	7,920
Australia	**27,878**	**2,004**	**2,025**	26,067	1,804	2,004
	567,505	**35,659**	**21,778**	510,971	36,507	33,407
Less: Unallocated central costs	**–**	**(2,821)**	**(2,821)**	–	(2,163)	(2,163)
	567,505	**32,838**	**18,957**	510,971	34,344	31,244

In the opinion of the directors the Group operates only one class of business and turnover by destination is not materially different from turnover by origin.

The exceptional items and amortisation of intangibles comprise:

	2003 £000	2002 £000
Amortisation of intangibles: recurring	**3,437**	3,100
exceptional impairment provision	**7,372**	–
UK restructuring costs	**3,072**	–
	13,881	3,100

As a result of the Group's Makers business incurring a loss in the year, an exceptional impairment provision has been charged in 2003 amounting to the unamortised capitalised goodwill associated with that business. The exceptional restructuring costs relate to both the Group's UK businesses, Makers and Keller Ground Engineering, and mainly comprise redundancy costs, the write-down of tangible fixed assets and office closure costs.

Capital employed may be analysed as follows:

	2003 £000	2002 £000
United Kingdom	**7,141**	20,036
The Americas	**114,851**	119,460
Continental Europe and overseas	**43,008**	39,013
Australia	**7,323**	4,879
	172,323	183,388

Capital employed shown above excludes items of a financing nature and corporation tax balances. Capital employed is reconciled to Group net assets as follows:

	Note	2003 £000	2002 £000
Net assets		**97,623**	100,144
Net debt	24	**60,664**	67,995
Deferred purchase consideration		**2,133**	4,076
Dividends payable		**4,522**	4,294
Corporation tax payable		**2,509**	5,704
Deferred tax provision		**4,872**	1,175
Capital employed		**172,323**	183,388

Notes to the accounts continued

3 Operating costs

	2003 £000	2002 £000
Change in stocks of finished goods and work in progress	**(2,138)**	722
Own work capitalised	**(4,909)**	(4,502)
Raw materials and consumables	**172,258**	150,613
Other operating charges	**204,048**	187,001
Staff costs	**157,583**	133,931
Amortisation of intangibles: recurring	**3,437**	3,207
exceptional impairment provision	**7,372**	–
Depreciation: tangible owned fixed assets	**10,353**	8,390
tangible fixed assets held under finance leases	**544**	365
	548,548	479,727
Other external and operating charges include:		
Auditors' remuneration: audit fees (Company: £75,000 (2002: £56,000))	**624**	454
fees paid to KPMG Audit Plc and associates for other services*	**283**	150
Rental of plant and equipment	**38,108**	32,313
Rental of property	**4,771**	3,055

* Fees for other services comprise tax services of £257,000 (2002: £102,000) and other services of £26,000 (2002: £48,000). In addition £139,000 was paid in 2002 in relation to acquisitions in that year.

4 Employees

The aggregate staff costs of the Group were:

	2003 £000	2002 £000
Wages and salaries	**134,420**	114,997
Social security costs	**20,109**	16,339
Other pension costs	**3,054**	2,595
	157,583	133,931

These costs include directors' remuneration. Disclosures on directors' remuneration, including emoluments, shareholdings, pension rights and interests in long term incentive arrangements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 36 to 39 within the remuneration report and form part of these financial statements.

The average weekly number of persons, including directors, employed by the Group during the year was:

	2003 Number	2002 Number
United Kingdom	**892**	876
The Americas	**1,968**	1,528
Continental Europe and overseas	**1,348**	1,276
Australia	**418**	375
	4,626	4,055

5 Net interest payable

	2003 £000	2002 £000
Interest payable on bank loans and overdrafts	**3,903**	3,803
Interest on other loans	**286**	294
Interest payable on finance leases	**222**	104
	4,411	4,201
Interest receivable	**(260)**	(287)
	4,151	3,914

Notes to the accounts continued

6 Taxation

The taxation charge comprises:

	2003 £000	2002 £000
Current tax:		
UK corporation tax on profits of the period	–	342
Overseas tax	**8,990**	9,555
Adjustments in respect of previous periods	**(423)**	(1,030)
Total current tax	**8,567**	8,867
Deferred tax:		
Current year	**1,901**	359
Prior year	**233**	1,458
Total deferred tax (see note 17)	**2,134**	1,817
	10,701	10,684
Factors affecting the tax charge for the year.		
Profit on ordinary activities before taxation	**14,806**	27,330
Profit on ordinary activities multiplied by the UK standard corporation tax rate of 30% (2002: 30%)	**4,442**	8,199
Effects of:		
Tax charged overseas at rates other than 30%	**1,758**	1,869
Capital allowances for the period in excess of depreciation	**(821)**	(406)
Tax losses carried forward	**2,269**	–
Permanent timing differences	**3,036**	317
Other timing differences	**(1,694)**	(82)
Adjustment to tax charge in respect of previous periods	**(423)**	(1,030)
Current tax charge	**8,567**	8,867

7 Dividends paid and proposed

Ordinary dividends on equity shares:

	2003 £000	2002 £000
Interim paid	**2,246**	1,995
Final proposed	**4,522**	4,289
	6,768	6,284

An interim ordinary dividend of 3.45p (2002: 3.3p) per share was paid on 31 October 2003. The final proposed ordinary dividend of 6.95p (2002: 6.6p) per share will be paid on 28 June 2004.

8 Earnings per share

Adjusted earnings per share of 24.1p (2002: 32.7p) is calculated based on profit after tax and minority interests before exceptional items and amortisation of intangibles of £15,630,000 (2002: £19,513,000) and the weighted average number of ordinary shares in issue during the year of 64,918,500 (2002: 59,749,130). Basic and diluted earnings per share are calculated as follows:

	2003 Basic £000	2003 Diluted £000	2002 Basic £000	2002 Diluted £000
Profit after tax and minority interests	**2,259**	**2,259**	16,413	16,413
	No. of shares 000's	No. of shares 000's	No. of shares 000's	No. of shares 000's
Weighted average of ordinary shares in issue during the year	**64,919**	**64,919**	59,749	59,749
Add: weighted average of shares under option during the year	**–**	**1,550**	–	993
Add: weighted average of own shares held	**–**	**118**	–	219
Subtract: number of shares assumed issued at fair value during the year	**–**	**(1,484)**	–	(828)
Adjusted weighted average of ordinary shares in issue	**64,919**	**65,103**	59,749	60,133
	pence	pence	pence	pence
Earnings per share	**3.5**	**3.5**	27.5	27.3

Notes to the accounts continued

9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 2003	73,714	(2,823)	70,891
Adjustments	(303)	1,436	1,133
At 31 December 2003	**73,411**	**(1,387)**	**72,024**
Amortisation			
At 1 January 2003	5,185	(584)	4,601
Charge/(credit) for the year	3,361	(69)	3,292
Exceptional impairment loss	7,372	–	7,372
At 31 December 2003	**15,918**	**(653)**	**15,265**
Net book value			
At 31 December 2003	**57,493**	**(734)**	**56,759**
Net book value			
At 31 December 2002	68,529	(2,239)	66,290

The adjustments to the cost of negative goodwill comprise a £1,436,000 reduction in the estimated fair value of the acquired net assets of McKinney Drilling Company. The adjustments to positive goodwill mainly represent a £900,000 decrease in the estimated deferred purchase consideration payable in respect of Accrete Limited, and a £680,000 increase in respect of the estimated deferred purchase consideration payable for the acquisition of Keller-Terra S.L.

10 Other intangible assets

Group	Licences £000
Cost	
At 1 January 2003	678
Additions	48
Disposals	(5)
Exchange differences	30
At 31 December 2003	**751**
Amortisation	
At 1 January 2003	304
Charge for the year	145
Disposals	(1)
Exchange differences	16
At 31 December 2003	**464**
Net book value	
At 31 December 2003	**287**
Net book value	
At 31 December 2002	374

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
Cost				
At 1 January 2003	22,439	118,885	255	141,579
Exchange differences	(88)	(596)	14	(670)
Additions	1,505	14,156	1,009	16,670
Disposals	(71)	(4,437)	(60)	(4,568)
Reclassification	137	43	(180)	–
At 31 December 2003	**23,922**	**128,051**	**1,038**	**153,011**
Depreciation				
At 1 January 2003	2,373	59,391	–	61,764
Exchange differences	43	127	–	170
Charge for the year	363	10,534	–	10,897
Disposals	–	(1,989)	–	(1,989)
At 31 December 2003	**2,779**	**68,063**	**–**	**70,842**
Net book value				
At 31 December 2003	**21,143**	**59,988**	**1,038**	**82,169**
Net book value				
At 31 December 2002	20,066	59,494	255	79,815

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

	2003 £000	2002 £000
Plant, machinery and vehicles	**2,941**	3,323

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

	2003 Cost £000	2003 Accumulated depreciation £000	2003 NBV £000	2002 NBV £000
Freehold land	**6,953**	**–**	**6,953**	5,659
Freehold buildings	**15,639**	**(2,571)**	**13,068**	13,518
Long leases	**770**	**(168)**	**602**	660
Short leases	**560**	**(40)**	**520**	229
	23,922	**(2,779)**	**21,143**	20,066

Notes to the accounts continued

12 Investments

Cost	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Own shares	**216**	463	**216**	463
Less: amounts owed to beneficiaries of Employee Benefit Trust	**(216)**	(463)	**(216)**	(463)
Subsidiary undertakings	**–**	–	**44,486**	31,439
	–	–	**44,486**	31,439

The market value of the investment in 98,878 own shares at 31 December 2003 was £216,048. As noted on page 37 this investment relates to purchases under the Keller Group plc Deferred Annual Bonus Scheme to cover awards of potential matched shares or additional matched shares by the Keller Group plc Employee Benefit Trust.

During the year the Company made further investments of £12,367,000 in Keller Holdings Limited and £680,000 in Keller-Terra S.L.

The Company's principal operating subsidiary undertakings at 31 December 2003 were as follows. A full list of subsidiaries will be annexed to the Company's next annual return.

Subsidiary undertaking	Country of incorporation
Keller Limited	Great Britain
Makers UK Limited	Great Britain
Allied Mechanical Services Limited	Great Britain
Accrete Limited	Great Britain
Keller Grundbau GmbH	Germany
Wannenwetsch Hochdruckwassertechnik GmbH	Germany
Keller Fondations Spéciales SARL	France
Keller Grundbau Ges.mbH	Austria
Minages et Travaux Souterrains SA	Switzerland
Keller-Terra S.L.	Spain
Lime Column Markteknik AB	Sweden
Keller Polska Sp. z o.o.	Poland
Keller Fondazioni S.r.l.	Italy
Keller (Malaysia) Sdn. Bhd.	Malaysia

Subsidiary undertaking	Country of incorporation
Keller Foundations (South East Asia) Pte Ltd	Singapore
Keller Turki Company Ltd	Saudi Arabia
Geotechnical Engineering Contractor Ltd	Egypt
Frankipile Australia Pty Ltd	Australia
Vibropile (Aust) Pty Ltd	Australia
P. T. Frankipile Indonesia	Indonesia
Hayward Baker Inc	USA
Case Foundation Company	USA
Case Atlantic Company	USA
McKinney Drilling Company	USA
Suncoast Post-Tension L.P.	USA
Seaboard Foundations Inc	USA
Atlantic Equipment Company Inc	USA
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 Hochdruckwassertechnik GmbH 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 Markteknik AB was 50% owned by Keller Holding GmbH throughout 2003. The Group purchased the other 50% in January 2004.

Notes to the accounts continued

13 Stocks

Group	2003 £000	2002 £000
Raw materials and consumables	**8,906**	9,645
Work in progress	**856**	217
Finished goods	**7,123**	5,285
	16,885	15,147

14 Debtors

	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Trade debtors	**122,296**	129,728	**–**	–
Amounts recoverable on contracts	**5,220**	3,383	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**86,254**	94,835
Other debtors	**6,312**	6,840	**1,244**	2,069
Prepayments	**4,027**	3,946	**–**	2
	137,855	143,897	**87,498**	96,906
Included in the above are amounts falling due after more than one year in respect of:				
Amounts owed by subsidiary undertakings	**–**	–	**65,784**	76,067
Other debtors	**1,597**	1,220	**–**	–
	1,597	1,220	**65,784**	76,067

15 Creditors: amounts falling due within one year

	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Overdrafts	**10,699**	2,232	**1,731**	3
Bank loans	**11,705**	9,512	**9,275**	7,188
Loan notes	**3,529**	5,303	**3,529**	3,903
Obligations under finance leases	**746**	818	**–**	–
Trade creditors	**63,417**	61,736	**–**	1,565
Amounts owed to subsidiary undertakings	**–**	–	**165**	499
Corporation and withholding taxes payable	**2,509**	5,704	**–**	–
Other taxes and social security payable	**8,364**	7,550	**–**	–
Other creditors	**26,436**	33,571	**4,423**	22
Accruals	**15,120**	10,684	**305**	226
Dividends payable	**4,522**	4,294	**4,522**	4,294
	147,047	141,404	**23,950**	17,700

There are no fixed terms for the repayment of loan notes of the Company amounting to £3,529,000. 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 2004.

Interest on these loan notes is charged at a rate for six month sterling deposits and at 31 December 2003 this interest rate was 3.83% (2002: 3.96%).

Notes to the accounts continued

16 Creditors: amounts falling due after more than one year

	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Bank loans	**54,239**	64,035	**41,511**	55,125
Obligations under finance leases	**1,257**	2,301	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**3,033**	1,409
Other creditors	**2,942**	6,005	**–**	–
	58,438	72,341	**44,544**	56,534
Bank loans and loan notes are repayable as follows:				
Between one and two years	**12,064**	10,474	**11,804**	10,313
Between two and five years	**41,753**	53,561	**29,707**	44,812
In five years or more	**422**	–	**–**	–
	54,239	64,035	**41,511**	55,125
Obligations under finance leases are repayable as follows:				
Between one and two years	**520**	776	**–**	–
Between two and five years	**446**	622	**–**	–
In five years or more	**291**	903	**–**	–
	1,257	2,301	**–**	–

Bank loans totalling £60,452,000 are due for repayment by September 2006. Interest is charged at a premium over LIBOR and at 31 December 2003 the weighted average interest rate was 4.80%.

Bank loans of £3,641,000 are repayable in quarterly instalments until September 2009.

The bank loans are denominated as follows:

Group	2003 £000	2002 £000
Loans denominated in sterling	**15,000**	17,167
Loans denominated in euros	**9,527**	4,420
Loans denominated in US dollars	**37,776**	48,918
Loans denominated in Australian dollars	**3,641**	3,042
	65,944	73,547

Notes to the accounts continued

17 Provisions for liabilities and charges

Group	2003 £000	2002 £000
Deferred taxation	**4,872**	1,175
Retirement provisions	**6,967**	6,305
Long service leave provisions	**519**	360
	12,358	7,840
Deferred taxation		
At 1 January	**1,175**	24
Exchange differences	**(332)**	82
Profit and loss account	**2,134**	1,817
Acquired with subsidiary undertakings	**–**	(748)
Fair value adjustment relating to 2002 acquisition	**1,895**	–
At 31 December	**4,872**	1,175

The total net deferred taxation liability is as follows:

Accelerated capital allowances	**8,298**	5,988
Other timing differences	**(3,426)**	(4,813)
	4,872	1,175

No provision has been made for any taxation which may arise in respect of future remittances from overseas subsidiary undertakings as no liability is expected to crystallise.

	2003 £000	2002 £000
Retirement provisions (see note 29)		
At 1 January	**6,305**	5,703
Exchange differences	**514**	414
Arising during the year	**148**	188
At 31 December	**6,967**	6,305
Long service leave provisions		
At 1 January	**360**	319
Exchange differences	**75**	(2)
Acquired with subsidiary undertakings	**–**	101
Arising during the year	**89**	(16)
Utilised during the year	**(5)**	(42)
At 31 December	**519**	360

Employees in Australia are entitled to long service leave after ten years of service on the basis of $8^2/_3$ 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:

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

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

	2002 AUD	2002 USD	2002 Euro	2002 Sterling	2002 Total
Weighted average fixed debt interest rate	–	5.4%	–	6.7%	n/a
Weighted average fixed debt period (years)	–	3.6	–	3.6	n/a

	£000	£000	£000	£000	£000
Fixed rate financial liabilities	–	(27,209)	–	(9,219)	(36,428)
Floating rate financial liabilities	(3,042)	(24,385)	(6,049)	(14,297)	(47,773)
Financial assets	2,528	2,967	6,379	4,332	16,206
Net financial (liabilities)/assets	(514)	(48,627)	330	(19,184)	(67,995)

The fixed rate financial liabilities comprise bank loans and finance leases.

The floating rate financial liabilities comprise bank loans, finance leases, 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 £19.2m at 31 December 2003; the facility expires on 5 September 2006. In addition, the Group had unutilised uncommitted facilities totalling £12.4m at 31 December 2003. All of these borrowing facilities are unsecured.

19 Share capital

Company	2003 £000	2002 £000
Authorised		
Equity share capital: 80,000,000 ordinary shares of 10p each (2002: 80,000,000)	**8,000**	8,000
Allotted, called up and fully paid		
Equity share capital: 65,069,750 ordinary shares of 10p each (2002: 64,981,050)	**6,507**	6,498
Shares to be issued		
Equity shares	**680**	–

It is probable that the Company will issue shares to the value of about £680,000 in the first half of 2004, representing deferred consideration for the acquisition of Keller-Terra S.L. which was contingent on its 2003 results.

Under the 1994 Scheme, options to subscribe for the Company's shares have been granted to certain executives. On 26 April 1998 these options became exercisable at any time up to 25 April 2005. At 1 January 2003 options under this scheme were outstanding over 108,700 ordinary shares at 102p each. 88,700 options were exercised during the year.

On 13 March 2003, the Company issued options over 607,500 shares. These options, 48,496 issued under the Approved Plan and 559,004 issued under the Unapproved Plan, may become exercisable between 13 March 2006 and 12 March 2013 subject to the performance criteria.

On 29 August 2003, the Company issued options over 50,000 shares. These options, 12,244 issued under the Approved Plan and 37,756 issued under the Unapproved Plan, may become exercisable between 29 August 2006 and 28 August 2013 subject to the performance criteria.

Notes to the accounts continued

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2003	35,293	7,629	46,494	89,416
Retained loss for the financial year	–	–	(4,509)	(4,509)
Exchange differences net of taxation	–	–	(136)	(136)
Issue of new shares	81	–	–	81
At 31 December 2003	**35,374**	**7,629**	**41,849**	**84,852**
Company				
At 1 January 2003	35,293	7,629	5,251	48,173
Retained profit for the financial year	–	–	8,296	8,296
Issue of new shares	81	–	–	81
At 31 December 2003	**35,374**	**7,629**	**13,547**	**56,550**

At 31 December 2003 the cumulative positive goodwill charged to reserves in previous years is £11,998,000 (2002: £11,998,000) and the cumulative negative goodwill credited to reserves in previous years is £407,000 (2002: £407,000). There have been no disposals of any of the businesses to which this cumulative positive goodwill or negative goodwill relates.

21 Reconciliation of movements in shareholders' funds

	2003 Group £000	2002 Group £000	2003 Company £000	2002 Company £000
Profit for the financial year	**2,259**	16,413	**15,064**	5,030
Dividends	**(6,768)**	(6,284)	**(6,768)**	(6,284)
Exchange differences net of taxation	**(136)**	(107)	**–**	–
Issue of new shares	**90**	13,621	**90**	13,621
Share capital to be issued	**680**	–	**680**	–
Net movements in shareholders' funds	**(3,875)**	23,643	**9,066**	12,367
Shareholders' funds at 1 January	**95,914**	72,271	**54,671**	42,304
Shareholders' funds at 31 December	**92,039**	95,914	**63,737**	54,671

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

Group	2003 £000	2002 £000
Operating profit	**18,957**	31,244
Depreciation charge	**10,897**	8,755
Amortisation of goodwill and intangibles	**3,437**	3,207
Exceptional impairment provision	**7,372**	–
Profit on sale of fixed assets	**(716)**	(752)
Movement in long-term provisions	**328**	130
Increase in stocks	**(2,040)**	(197)
Decrease/(increase) in debtors	**3,351**	(3,190)
(Decrease)/increase in creditors	**(1,635)**	3,974
Net cash inflow from operating activities	**39,951**	43,171

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	2003 £000	2002 £000
(Decrease)/increase in cash in the year	**(3,435)**	10,680
Cash flow from debt and lease financing	**7,081**	(17,336)
Cash flow from (decrease)/increase in short-term bank deposits	**(885)**	61
Change in net debt resulting from cash flows	**2,761**	(6,595)
Net debt acquired with subsidiary undertakings	**–**	(1,687)
New loan notes	**–**	(1,400)
Exchange differences	**4,570**	4,889
Movement in net debt in the year	**7,331**	(4,793)
Net debt at 1 January	**(67,995)**	(63,202)
Net debt at 31 December	**(60,664)**	(67,995)

24 Analysis of changes in net debt

Group	At 1 January 2003 £000	Cash flow £000	Other non-cash changes £000	Exchange differences £000	At 31 December 2003 £000
Cash in hand	13,865	5,468	–	590	**19,923**
Overdrafts	(2,232)	(8,903)	–	436	**(10,699)**
	11,633	(3,435)	–	1,026	**9,224**
Short-term bank deposits	2,341	(885)	–	132	**1,588**
Bank loans due within one year	(9,512)	7,088	(9,273)	(8)	**(11,705)**
Bank loans due after one year	(64,035)	(2,951)	9,273	3,474	**(54,239)**
Loan notes due within one year	(5,303)	1,774	–	–	**(3,529)**
Finance leases	(3,119)	1,170	–	(54)	**(2,003)**
	(67,995)	2,761	–	4,570	**(60,664)**

25 Cash at bank and in hand

Group	2003 £000	2002 £000
Cash in hand	**19,923**	13,865
Short-term bank deposits	**1,588**	2,341
	21,511	16,206

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	2003 £000	2002 £000
Share of turnover from the joint arrangements	**6,651**	5,450
Net joint arrangement balances at 1 January	**1,091**	1,029
Share of profit from the joint arrangements before overhead allocation	**364**	1,120
Net distributions from the joint arrangements	**(1,502)**	(1,030)
Exchange differences	**35**	(28)
Net joint arrangement balances at 31 December	**(12)**	1,091
Joint arrangement debtor balances at 31 December	**367**	1,494
Joint arrangement creditor balances at 31 December	**(379)**	(403)

27 Commitments

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

	2003 Land and buildings £000	2003 Plant, machinery and vehicles £000	2003 Total £000	2002 Land and buildings £000	2002 Plant, machinery and vehicles £000	2002 Total £000
Expiring within one year	**1,487**	**1,734**	**3,221**	427	762	1,189
Expiring between two and five years inclusive	**5,153**	**5,719**	**10,872**	2,095	4,861	6,956
Expiring in over five years	**3,656**	**–**	**3,656**	915	3	918
	10,296	**7,453**	**17,749**	3,437	5,626	9,063

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 2003 the Group had discounted bills of exchange and standby letters of credit outstanding totalling £12,812,877 (2002: £2,634,519).

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 £770,000 (2002: £700,000).

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 2003.

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 2003 the liability was £6,879,000 (2002: £6,325,000). The total German and Austrian pension charge for the year was £787,000 (2002: £448,000) 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 £838,000 (2002: £933,000).

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 £658,000 (2002: £475,000).

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 is set out below:

The Keller Group Pension Scheme	As at 31 December 2003 £000	As at 31 December 2002 £000
Market value of assets	**15,082**	12,524
Present value of the scheme liabilities	**(21,119)**	(19,027)
Deficit in the scheme	**(6,037)**	(6,503)
Related deferred tax asset @ 30%	**1,811**	1,951
Net pension liability	**(4,226)**	(4,552)

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 2003	As at 31 December 2002	As at 31 December 2001
Rate of increase in salaries	**3.75%**	3.67%	3.75%
Rate of increase in pensions in payment	**2.50%**	2.42%	2.50%
Rate of revaluation of pensions in deferment	**2.50%**	2.42%	2.50%
Inflation assumption	**2.50%**	2.42%	2.50%
Discount rate	**5.75%**	5.75%	6.00%

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 2003 £000	Expected long term return 2003	Value as at 31 December 2002 £000	Expected long term return 2002	Value as at 31 December 2001 £000	Expected long term return 2001
Equities	**9,242**	**8.0%**	7,417	8.5%	10,320	8.5%
Bonds	**5,840**	**5.2%**	5,107	5.0%	3,634	5.0%
Total market value of assets	**15,082**		12,524		13,954	

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Amount charged to operating profit		
Current service cost	**398**	718
Amount charged to other finance (cost)/income		
Expected return on assets	**910**	1,059
Interest on scheme liabilities	**(1,101)**	(894)
Net return	**(191)**	165
Amounts recognised in Statement of Total Recognised Gains and Losses (STRGL)		
Actual less expected return on assets	**968**	(2,715)
Experience gains/(losses) on liabilities	**860**	(2,369)
Effect of change in assumptions on liabilities	**(1,595)**	(508)
Total gain/(loss) recognised in STRGL	**233**	(5,592)
Movement in deficit during the year		
Deficit in scheme at beginning of year	**(6,503)**	(954)
Current service cost	**(398)**	(718)
Cash contribution	**822**	596
Other finance (cost)/income	**(191)**	165
Actuarial gain/(loss)	**233**	(5,592)
Deficit in scheme at end of year	**(6,037)**	(6,503)
History of experience gains and losses		
Difference between expected and actual returns on scheme assets	**968**	(2,715)
Percentage of assets at end of year	**6.4%**	21.7%
Experience losses on scheme liabilities	**860**	(2,369)
Percentage of liabilities at end of year	**4.1%**	12.5%
Total actuarial loss	**233**	(5,592)
Percentage of liabilities at end of year	**1.1%**	29.4%

German and Austrian Schemes	Value as at 31 December 2003 £000	Value as at 31 December 2002 £000
Present value of the schemes liabilities	**(5,963)**	(5,079)
Related deferred tax asset at 38% (2002: 38%)	**2,266**	1,930
Net pension liability	**(3,697)**	(3,149)

The value of the schemes' liabilities has been determined by the actuary using the following assumptions:

Discount rate	**6.0%**	5.75%

Notes to the accounts continued

29 Pensions continued

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Amount charged to operating profit		
Current service cost	**92**	201
Amount charged to other finance cost		
Interest on scheme liabilities	**(206)**	(291)
Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)		
Experience losses on liabilities	**(701)**	(243)
Effect of change in assumptions on liabilities	**115**	204
Total loss recognised in STRGL	**(586)**	(39)
Movement in deficit during the year		
Deficit in scheme at beginning of year	**(5,079)**	(4,548)
Current service cost	**(92)**	(201)
Other finance cost	**(206)**	(291)
Actuarial loss	**(586)**	(39)
Deficit in scheme at end of year	**(5,963)**	(5,079)
History of experience gains and losses		
Experience losses on scheme liabilities	**(701)**	(243)
Percentage of liabilities at end of year	**11.8%**	4.8%
Total actuarial loss	**(586)**	(39)
Percentage of liabilities at end of year	**9.8%**	0.8%

Financial record

	1999* £000	2000* £000	2001 £000	2002 £000	2003 £000
Consolidated profit and loss account					
Turnover	314,899	312,954	422,248	510,971	**567,505**
Operating profit before exceptional items and amortisation of intangibles	19,362	17,706	25,429	34,344	**32,838**
Amortisation of intangibles	24	(322)	(1,251)	(3,100)	**(3,437)**
Exceptional items	–	(1,177)	–	–	**(10,444)**
Operating profit	19,386	16,207	24,178	31,244	**18,957**
Net interest payable	(345)	(760)	(1,785)	(3,914)	**(4,151)**
Profit on ordinary activities before taxation	19,041	15,447	22,393	27,330	**14,806**
Taxation	(6,872)	(5,791)	(8,684)	(10,684)	**(10,701)**
Profit on ordinary activities after taxation	12,169	9,656	13,709	16,646	**4,105**
Equity minority interests	(112)	140	(342)	(233)	**(1,846)**
Profit for the financial year	12,057	9,796	13,367	16,413	**2,259**
Dividends paid and proposed	(4,428)	(4,829)	(5,401)	(6,284)	**(6,768)**
Retained profit/(loss) for the financial year	7,629	4,967	7,966	10,129	**(4,509)**
Consolidated balance sheet					
Intangible fixed assets	1,604	12,696	61,019	66,664	**57,046**
Tangible fixed assets	43,688	50,788	59,277	79,815	**82,169**
Other net operating assets	14,082	18,971	31,857	43,939	**40,132**
Net (debt)/funds	5,264	(9,611)	(63,202)	(67,995)	**(60,664)**
Other liabilities	(13,487)	(15,216)	(15,676)	(22,279)	**(21,060)**
Net assets	51,151	57,628	73,275	100,144	**97,623**
Equity minority interests	(899)	(712)	(1,004)	(4,230)	**(5,584)**
Equity shareholders' funds	50,252	56,916	72,271	95,914	**92,039**
Gearing	0%	17%	86%	68%	**62%**
Basic earnings per share	21.3p	17.3p	23.6p	27.5p	**3.5p**
Earnings per share before exceptional items and amortisation of intangibles	21.2p	19.0p	25.8p	32.7p	**24.1p**
Diluted earnings per share	21.2p	17.2p	23.4p	27.3p	**3.5p**
Dividend per share	7.8p	8.5p	9.2p	9.9p	**10.4p**

* Restated for the effects of FRS 19.

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Keller Group plc will be held at the offices of Dresdner Kleinwort Wasserstein, 20 Fenchurch Street, London EC3P 3DB on 25 June 2004 at 11.00am for the transaction of the following business:

Ordinary business

(1) To receive and adopt the report of the directors and the statement of accounts for the year ended 31 December 2003 together with the report of the auditors thereon.

(2) To declare a final dividend of 6.95p per ordinary share, such dividend to be paid on 28 June 2004 to members on the register at the close of business on 28 May 2004.

(3) To approve the directors' remuneration report for the year ended 31 December 2003.

(4) To re-elect as a director Dr J M West who retires by rotation.

(5) To re-elect as a director Mr K F Payne who retires by rotation.

(6) To elect as a director Mr J W G Hind, who has been appointed by the board since the last Annual General Meeting.

(7) To elect as a director Dr K Bond, who has been appointed by the board since the last Annual General Meeting.

(8) To elect as a director Dr W Sondermann, who has been appointed by the board since the last Annual General Meeting.

(9) To re-appoint KPMG Audit Plc as auditors to the Company and to authorise the directors to fix their remuneration.

To consider and, if thought fit, to pass the following resolutions of which resolutions numbered 10 and 11 will be proposed as ordinary resolutions and resolutions numbered 12 and 13 will be proposed as special resolutions:

(10) THAT the directors be and are hereby generally authorised for the purposes and subject to the provisions of Article 162 of the Company's Articles of Association to offer the holders of ordinary shares the right to elect to receive ordinary shares, credited as fully-paid, instead of cash in respect of all or part of such dividend or dividends as may be declared by the Company or by the directors and that the authority of the directors to make such offers shall be exercisable during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company.

(11) THAT:

(i) the directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 ("the Act") to allot relevant securities (as defined in Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £2,166,822 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company, provided that the Company may make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired; and

(ii) all previous authorisations given by the Company in general meeting or otherwise pursuant to Section 80 of the Act be and are hereby revoked to the extent not previously exercised.

(12) THAT, subject to the passing of resolution 11 above, the directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94(2) of the Act) of the Company within the terms of the authority set out in resolution 11 above as if Section 89(1) of the Act did not apply to such allotment provided that such power shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares in proportion (as nearly as may be) to their respective holdings of such shares subject only to such exclusions or other arrangements as the directors may consider expedient to deal with fractional entitlements or legal or practical considerations arising under the laws of any territory or the requirements of any regulatory body; and

(ii) the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal value of £325,348

and shall expire at the conclusion of the next Annual General Meeting of the Company save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

(13) THAT the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of up to in aggregate 6,506,975 of its own ordinary shares of 10p each in the capital of the Company ("ordinary shares") (representing 10% of the Company's issued ordinary share capital at the date of this notice) provided that:

(i) the maximum price which may be paid for an ordinary share is an amount equal to not more than 5% above the average of the middle market quotations for the shares taken from the London Stock Exchange Daily Official List for the five business days before the day on which the purchase is made exclusive of expenses payable by the Company;

(ii) the minimum price which may be paid for a share is 10p; and

(iii) the authority conferred by this resolution shall expire at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which would or may require to be completed or executed wholly or partly after the expiration of this authority as if the said authority had not expired.

Special business

To consider and, if thought fit, to pass the following resolutions numbered 14, 15 and 16 as ordinary resolutions:

(14) THAT:

(i) the rules of the Keller Group Performance Share Plan 2004 (the "Plan"), the main features of which are summarised in the Appendix to the chairman's letter to shareholders dated 11 March 2004 and a copy of the rules of which is produced to the meeting and initialled by the chairman for the purposes of identification, be and are hereby approved;

(ii) the board of directors be and is hereby authorised to do all such things as it considers necessary or expedient to carry the Plan into effect;

Notice of annual general meeting continued

(iii) the board of directors be and is hereby authorised to establish such schedules to the Plan and/or such other plans based on the Plan but modified to take account of local tax, exchange control or securities laws outside the UK, provided that any shares made available under such schedules or other plans must be treated as counting against the relevant individual or overall dilution limits of the Plan.

(15) THAT:

(i) the Company's proposed new employee benefit trust, the Keller Group Employee Benefit Trust (the "Trust"), the main features of which are summarised in the Appendix to the chairman's letter to shareholders dated 11 March 2004, and the deed constituting the Trust, a copy of which is produced to the meeting and initialled by the chairman for the purposes of identification, be and the same are hereby approved;

(ii) the board of directors be and is hereby authorised to do all such things as it considers necessary or expedient to carry the Trust into effect;

(iii) the board of directors be and is hereby authorised to establish similar trusts based on the Trust but modified to take account of local tax, exchange control or securities laws outside the UK, provided that any shares acquired by such trusts will count against the overall limit on the number of shares which may be held by the Trust, such limit currently being equal to 5% of the issued ordinary share capital of the Company at any time.

(16) THAT the directors be authorised to vote and to be counted in a quorum at any meeting of the directors at which any matter connected with the Plan and/or the Trust or any similar trusts based on the Trust is under consideration notwithstanding that they may be interested in it in any present or proposed capacity, provided that no director may vote or be counted in a quorum in connection with his individual rights of participation.

By order of the board

Jackie Holman
Secretary
11 March 2004

Registered office:
Aztec House, 397-405 Archway Road
London N6 4EY

Notes

(1) Any member entitled to attend and, on a poll, vote at the Annual General Meeting convened by this notice may appoint one or more proxies to attend and to vote instead of him. A proxy need not be a member of the Company.

(2) To appoint a proxy, the form enclosed with this notice should be completed and deposited at the offices of the Company's Registrars not less than 48 hours before the time of the Annual General Meeting specified above or of the adjourned meeting at which the proxy proposes to vote. Completion of a form of proxy does not preclude a member from attending and voting at the meeting in person.

(3) Copies of all the directors' service contracts or memoranda of the terms thereof; the register of interests of directors in the share capital of the Company; the memorandum and articles of association; the draft rules of the proposed Keller Group Performance Share Plan 2004; and the deed constituting the Keller Group Employee Benefit Trust will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

(4) Directors' biographical details are set out on pages 26 and 27 of the Annual Report and Accounts.

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