3 March 2020

Keller Group plc Audited Preliminary Results for the year ended 31 December 2019

Keller Group plc ("Keller" or "the group"), the world's largest geotechnical specialist contractor, announces its results for the year ended 31 December 2019.

Strong H2 delivers results in line with expectations

	2019 IFRS 16 basis[1] **£m**	**2019** IAS 17 basis **£m**	**2018** IAS 17 basis **£m**	**% change** IAS 17 basis	**Constant currency % change** IAS 17 basis
Revenue	**2,300.5**	2,300.5	2,224.5	3%	2%
Underlying operating profit[2]	**103.8**	101.8	96.6	5%	2%
Underlying profit before tax[2]	**81.3**	83.6	80.5	4%	-
Underlying diluted earnings per share[2]	**81.3p**	83.5p	79.1p	6%	2%
Net debt	**289.8**	213.1	286.2	(26)%	(25)%
Dividend per share	**40.0p**	40.0p	35.9p	+11%	n/a
Statutory operating profit	74.1		25.0		
Statutory profit before tax	51.6		8.4		
Statutory diluted earnings per share	29.7p		(20.6)p		

[1]The group adopted IFRS 16 on 1 January 2019 and comparative financial measures have not been restated. The 2019 preliminary results prepared on the basis of IAS 17, the previous leasing standard, as well as under IFRS 16 have been presented and commented upon to allow meaningful comparison to prior periods

[2] Underlying operating profit and underlying diluted earnings per share are non-statutory measures which provide readers of this preliminary announcement with a balanced and comparable view of the group's performance by excluding the impact of non-underlying items, as disclosed in note 8 of the preliminary consolidated financial statements

Highlights

- Results in line with expectations following a strong second half as anticipated
- Revenue up 3% to £2,300.5m, with growth in North America and EMEA, and favourable currency offset by the planned reduction of activity in APAC
- Underlying operating profit of £103.8m (IFRS 16 basis) and £101.8m (IAS 17 basis), an increase of 5% (IAS 17 basis), largely driven by the return to profit in APAC
- Net debt (on a bank covenant IAS 17 basis) reduced by 26% to £213.1m, equating to net debt / EBITDA of 1.2x
- Good progress continues in safety; 21% improvement in our overall Accident Frequency Rate
- Revised strategy announced in late 2019 will lead to a more focused and higher quality business
- Recommended final dividend of 27.4p per share (including a non-recurring supplementary dividend of 2.3p per share). This brings the 2019 full year dividend to 40.0p per share, an increase of 11%
- The year has started well and the outlook remains cautiously optimistic. Another year of continued progress is expected, supported by our robust order book in excess of £1bn

Michael Speakman, Chief Executive Officer, said:

"2019 was a significant year of decisive progress for Keller. The return to profit in APAC and the group's strong cashflow generation underpinned the improved financial performance in the year, which was in line with expectations. Our more focused strategy will ensure that Keller evolves in the future to become a more efficient, higher quality business.

Whilst we are cautiously optimistic and expect another year of continued progress for Keller, supported by our robust order book, we remain cognisant of challenging global macroeconomic conditions and the potential indirect impact of COVID-19. The group's leading market positions will allow it to benefit from the medium term market trends of urbanisation and infrastructure growth and we expect to continue to deliver shareholder returns through anticipated growth in underlying profits and our progressive dividend policy."

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A presentation for analysts will be held at 9.30am at One Moorgate Place - Chartered Accountants Hall, 1 Moorgate Place, London EC2R 6EA

A live webcast will be available from 9.30am and, on demand, from 2.00pm at https://www.investis-live.com/keller/5e3850a30a12d41100942069/easd

Notes to editors: Keller is the world's largest geotechnical specialist contractor providing a wide portfolio of advanced foundation and ground improvement techniques used across the entire construction sector. With around 10,000 staff and operations across six continents, Keller tackles an unrivalled 7,000 projects every year, generating annual revenue of more than £2bn.

Cautionary statements: This document contains certain forward looking statements with respect to Keller's financial condition, results of operations and business and certain of Keller's plans and objectives with respect to these items. Forward looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates'. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates. For a more detailed description of these risks, uncertainties and other factors, please see the Risk Management approach and Principal Risks section of the Strategic Report in the Annual Report and Accounts. All written or verbal forward looking statements, made in this document or made subsequently, which are attributable to Keller or any other member of the group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Keller does not intend to update these forward looking statements. Nothing in this document should be regarded as a profits forecast. This document is not an offer to sell, exchange or transfer any securities of Keller Group plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the United States absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).

LEI number: 549300QO4MBL43UHSN10
Classification: 1.1 (Annual financial and audit reports)
The person responsible for making this announcement is Kerry Porritt, Group Company Secretary

Adjusted performance measures

In addition to statutory measures, a number of Adjusted Performance Measures (APMs) are included in this Preliminary Announcement to assist investors in gaining a clearer understanding and balanced view of the group's underlying results and in comparing performance. These measures are consistent with how business performance is measured internally.

The APMs used include underlying operating profit, underlying earnings before interest, tax, depreciation and amortisation, underlying net finance costs and underlying earnings per share, each of which are the equivalent statutory measure adjusted to eliminate the amortisation of acquired intangibles and other significant one-off items not linked to the underlying performance of the business. Further underlying constant exchange rate measures are given which eliminate the impact of currency movements by comparing the current measure against the comparative restated at this year's actual average exchange rates. Where APMs are given, these are compared to the equivalent measures in the prior year.

The group has adopted IFRS 16 ‘Leases’, using the modified retrospective adoption method which does not require the restatement of prior period comparatives, with an initial date of application of 1 January 2019. IFRS 16 replaces IAS 17, the previous accounting standard, and has had an impact on the costs, profits, assets and liabilities included within the statutory results of the group. To further assist investors to understand the trading performance of the group during this transition period compared to previously reported results, APMs for the current reporting period are also stated on an IAS 17 basis.

APMs are reconciled to the statutory equivalent in the Adjusted Performance Measures section in this Announcement.

Chairman's statement

Overview

Keller has made significant progress during the year and is now well-positioned for future profitable growth. We have made a number of important decisions resulting in changes to our senior management and a revision of our strategy.

The group's revenue increased by 3% to £2.3bn, with growth in North America and EMEA, aided by favourable currency, offset by the planned reduction of activity in APAC. Underlying operating profit was £103.8m, including the impact of IFRS 16, and £101.8m on a comparable IAS 17 basis, an increase of 5% on the prior year. The increase in operating profit was in large part driven by the return to profit in APAC.

We continued to strengthen the balance sheet, ending the year with a 26% reduction in net debt to £213.1m. As anticipated, net debt/EBITDA came in within our target range of 1.0x-1.5x at 1.2x (on a bank covenant IAS 17 basis).

During 2019 we successfully refocused and restructured our APAC division, which led to the business reporting a full year profit for the first time since the merger of the previously separate Australia and Asia divisions in 2016.

Strategy

In July 2019 we announced our intention to integrate all of our foundation businesses in North America into one unified company, branded as Keller. The new structure has been effective since 1 January 2020. We have refined our initial assessment of the incremental benefit of being able to offer all products and services across North America and anticipate generating materially improved financial performance by 2022 in addition to the initial estimated cost and efficiency savings. The costs of delivering the reorganisation is being absorbed in the ordinary course of business. In the medium term, we expect the resultant market share gains, cost synergies and efficiency benefits to support our growth in North America.

Following the Board's review of the group's strategy in 2019, we defined more clearly the core activities of our business. Our objective is for Keller to become a more focused, higher quality business achieving both sustainable operational delivery and cash generation whilst building on our industry-leading margins. Keller will concentrate on being the preferred international geotechnical specialist contractor operating in selected sustainable markets, where we enjoy leading positions, and on large attractive projects. Local businesses will leverage the group's scale and expertise to deliver engineered solutions and operational excellence driving market share leadership in our selected segments.

This enhancement and sharper focusing of our strategy will result in a rationalisation of our geographic presence, and also see the group exiting certain non-core activities. We will concentrate our resources on those markets and activities where customers value our skills and expertise, where we can achieve mutual benefits and enjoy an appropriate level of financial return.

As a result, in December we announced that we will make a phased withdrawal from South America, where market conditions have proven to be challenging. This will enable us to focus more deeply on our higher quality European businesses in our EMEA division. We are also undertaking a strategic review of our Franki Africa activities and anticipate this will be fully complete by the half year.

Safety

During the year, the group's Accident Frequency Rate (AFR) continued to trend downwards, reaching 0.15 per 100,000 hours, as at December 2019. This is the lowest level achieved by the group, and we believe it to be industry leading performance. However, we recognise that we still have a way to go to eliminate incidents from our operations. We had a number of serious incidents last year reminding us that we cannot become complacent. The Board and management hold the safety of individuals as a paramount objective and together we continue in the pursuit of our goal of zero harm.

Governance

The group is committed to the highest levels of corporate governance. We balance our commitment to generating shareholder value with our wider responsibilities to all stakeholders, the environment and society as a whole. The new UK Corporate Governance Code came into effect on 1 January 2019, and we have taken appropriate steps to achieve compliance. The Code requires, for example, that the Board listens to the views of the workforce and takes those views into account in its decision making. We appointed Baroness Kate Rock as our designated Non-executive Director for workforce engagement in April 2019, supported by a Workforce Engagement Committee to better engage and understand the views of our employees. The Board is also looking to what more we can do to engage with our wider stakeholders developing the approach already in place today.

Ensuring we have the right mix of skills, experience and overall diversity is critically important and we reinforce this message as a Board. As a Board we support management in creating a more inclusive business that better reflects the geographic footprint of the group and the diverse workforces in our operating markets. Our Board members are exposed to the full breadth of the business, and this includes appropriate engagement with our stakeholders and proper familiarisation with the operational and commercial aspects of the business. We also acknowledge the growing importance of environmental, social and governance criteria to the business and continue to integrate these priorities into our core company functions.

Board development

Chris Girling retired from the Board and as Audit Committee Chairman on 1 January 2019 and was succeeded as Audit Committee Chairman by Paula Bell.

In September, we announced that Alain Michaelis would step down as Chief Executive Officer after more than four years with the company. After an extensive global search, Michael Speakman, Interim Chief Executive Officer and formerly Chief Financial Officer, was appointed to the position of Chief Executive Officer in December 2019. Michael has demonstrated that he has the skills we need to drive forward our newly refined strategy and make Keller a higher quality business.

Paul Withers, Senior Independent Director and Chairman of the Remuneration Committee, gave us notice in December 2019 of his intention to retire from the Board at the conclusion of the Company's Annual General Meeting to be held on 21 May 2020, having served on the Board for eight years. Paul has stepped down as Senior Independent Director and Chairman of the Remuneration Committee with effect from 1 January 2020. Baroness Kate Rock, Non-executive Director and Chairman of the Workforce Engagement Committee, was appointed Senior Independent Director and Eva Lindqvist, Non-executive Director, was appointed as Chairman of the Remuneration Committee, both effective from 1 January 2020.

We continue to review the Board's composition to ensure that we have the correct balance of experience, diversity and skills to drive our effectiveness. Concurrent with the retirement of Paul Withers, collectively, we have agreed that it is the right time to move to a more conventional plc board structure, by reducing the number of executive directors. Accordingly James Hind and Venu Raju will not stand for re-election as Executive Directors at the Company's Annual General Meeting on 21 May 2020. James and Venu will remain members of Keller's Executive Committee, retaining their current executive responsibilities as President of North America and Engineering and Operations Director, respectively. James will continue to play an important role in actively contributing to the Board's discussions and Venu, with his knowledge of the core of our business, geotechnical engineering, will remain a regular attendee at Board and Committee meetings.

Dividends

Keller has consistently and materially grown its dividend over the 25 years since first listing on the London Stock Exchange and the Board continues to recognise the importance of returns to shareholders. Keller has strong cash generation and a robust balance sheet, which together support our ability to continue to increase the dividend sustainably through market cycles. This strong cash flow has again been demonstrated by our deleveraging in the second half of 2019. Net debt/EBITDA came in within our target range of 1.0x-1.5x at 1.2x (on a bank covenant IAS 17 basis).

The Board is committed to maintaining an efficient balance sheet and regularly reviews the group's capital resources in light of the medium-term investment requirements of the business and will return excess capital to shareholders as and when appropriate. The Board announced in December that it intends to maintain the current progressive dividend policy and in addition to the normal 5% increase to the annual ordinary dividend of recent years, the Board intends to pay a non-recurring supplementary dividend of 2.3p per share for 2019 and of 4.4p per share for 2020. This brings the 2019 full year dividend to 40.0p per share for 2019 (2018: 35.9p), a year on year increase of 11%, and to 44.0p per share for 2020. Once approved, the recommended 2019 final dividend of 27.4p per share (2018: 23.9p per share) will be paid on 26 June 2020 to shareholders on the register as at the close of business on 5 June 2020.

Employees

I would like to thank all of Keller's employees for their commitment, hard work and determination. Their continuing drive for improvement, while acting in accordance with our vision and values, is key to how we make a real and positive difference.

Prospects

Whilst market conditions are expected to remain mixed in the short term, with many macroeconomic uncertainties impacting the timing of customer investment decisions, the year has started well and the group is well positioned to benefit from the positive medium and long term market trends of urbanisation and infrastructure growth.

Following the Board’s review of the group’s strategy, Keller will become a more focused, higher quality business achieving both sustainable operational delivery and cash generation whilst building on our industry-leading margins. The Board's decision to return excess capital to shareholders in the form of supplementary dividends for the financial years 2019 and 2020 evidences the Board's confidence in the group's prospects.

Chief Executive Officer's review

Overview

The group made good progress in 2019, with the restructuring and return to profitability in APAC, together with a significant reduction in debt, underpinning the financial performance of the group and the group achieving further important improvements in safety. These achievements helped to counter the year on year impact of the previously announced conclusion of the major projects in EMEA, some margin dilution in North America and mixed conditions in some of the group's markets. Looking ahead, the fundamental strengths of the company and sound dynamics of our markets mean that Keller is well placed to exploit the refined strategy announced by the Board and become a more focused, higher quality business with industry-leading margins, achieving both sustainable operational delivery and cash generation.

Safety

The safety of our employees is at the very top of our agenda and whilst we continue to make progress in this area we will not be satisfied until we achieve and maintain our goal of zero harm.

We continue to make substantive progress with strong, industry-leading performance. In 2019, we recorded a 21% improvement in our overall Accident Frequency Rate (AFR) and 14% reduction in our Total Recordable Incident Rate (TRIR). Over a five year period, we have recorded a 62% decrease in our recorded AFR down to 0.15 incidents per 100,000 hours worked in 2019, an all-time low for the group. Whilst we experienced no fatalities in 2019, regrettably the number of major injuries suffered has increased year on year, from 15 in 2018 to 17 in 2019, and this is a key area of focus for 2020. One of our focus areas in 2019 was rig overturns and pleasingly we have seen a significant reduction of these incidents from eight in 2018 to three in 2019 as a result of the implementation of our industry leading 'platform standard', which details the minimum acceptable ground conditions on which rigs are permitted to operate.

At the beginning of 2020 we launched a new global incident management system as part of our quest for zero harm. The data gathered will help improve our understanding of all incidents, thus enabling us to make better decisions on where we need to direct our efforts. This is one of several initiatives that we have recently launched and that will gain traction in 2020. We have the opportunity to leverage our experienced and skilled safety resources across our global footprint.

Financial performance

The group revenue for 2019 was £2.3bn (2018: £2.2bn), a nominal increase of 3% over the prior year, driven by the benefit of foreign exchange and the full year effect of the acquisition of the Moretrench business in North America in the first quarter of 2018. Revenue was otherwise flat, with growth in North America and EMEA offsetting the planned reduction of volume in APAC as a result of restructuring activities.

Underlying operating profit was £103.8m (IFRS 16 basis). Underlying operating profit on an IAS 17 basis was £101.8m (2018: £96.6m), an increase of 5%. The benefit of favourable foreign exchange rates and the full year effect of the Moretrench acquisition were mitigated by a 1% organic decline, with the return to profitability in the APAC region offset by lower margins in North America and the conclusion of two large EMEA projects. Underlying diluted earnings per share on a comparable IAS 17 basis increased by 6% to 83.5p per share (2018: 79.1p per share).

Strong cash flow during the final quarter of the year resulted in a reduction in net debt to £213.1m (2018: £286.2m) equating to a debt leverage of 1.2x (2018: 1.7x) (on bank covenant IAS 17 basis) comfortably within our target range of 1.0x-1.5x. The year end net debt included approximately £40m of positive working capital timing benefits which will partially reverse in 2020.

Our return on capital employed (ROCE) of 14.4% was above 13.2% recorded in 2018, driven by higher profitability and a lower asset base.

As previously announced, the Board intends to maintain the current progressive dividend policy and in addition to the normal annual 5% increase is recommending a non-recurring supplementary dividend of 2.3p per share for 2019 and of 4.4p per share for 2020. This brings the 2019 full year dividend to 40.0p per share for 2019 (2018: 35.9p), a year on year increase of 11%, and to 44.0p per share for 2020. Once approved, the 2019 final dividend of 27.4p per share (2018: 23.9p per share) will be paid on 26 June 2020 to shareholders on the register as at the close of business on 5 June 2020.

The Board remains committed to maintaining an efficient balance sheet and since the group was listed in 1994 we have maintained a year on year increase in dividends, reflecting the strong cash generating characteristics of the group.

Operating performance

North America benefitted from the full year effect of the acquisition of the Moretrench business in March 2018, the anticipated recovery of margins in Suncoast, predominantly from the high rise part of the business, and a year on year volume increase. Offsetting these increases were the adverse effects of a lower volume of high margin data centre and emergency work, and an increase in loss making contracts, which are being addressed.

The reorganisation and rebranding of our foundation businesses in North America is progressing well, with the new structure effective as of 1 January 2020, and, whilst it is early days, we believe the new structure will generate a materially improved financial performance by 2022. The costs of implementing the reorganisation are expected to be approximately £3.0m and are being absorbed by the division through 2019 and 2020 in the ordinary course of business. In the medium term, we expect cost synergies and efficiency benefits of £4.5m to £6.0m per annum. More importantly, we anticipate a gain in market share supporting our continued growth in North America.

In EMEA, year on year profitability declined due to the completion of two large, high margin projects in 2018. Excluding these two projects, the year on year underlying EMEA performance improved, largely due to Central Europe and South East Europe, with the most notable exception being Franki Africa where performance declined year on year. The UK, which represents less than 3% of overall group revenue, was adversely impacted by the political uncertainty around the government election and Brexit which created a hesitant investment climate for most of 2019. Whilst the High Speed Two (HS2) project has now received government approval and we have been engaged on the early contractor stage on two sections, we do not anticipate receiving any material benefit before 2021.

Our APAC division is fully restructured and refocused and, as result, returned to profit in the second half of the year and reported a full year profit, a first for the combined APAC division since the merger in 2016 of the previously separate Australia and Asia divisions. This success underlines the appropriateness of the actions that we took at ASEAN and Waterway, and endorses the way in which our plans were executed. In ASEAN we have exited the heavy foundation activities in Singapore and Malaysia, whilst in Australia the loss-making Waterway business has been closed.

Strategy

Our vision is ***to become the leading provider of specialist geotechnical solutions*** and, following the Board's review of the group's strategy, we have defined more clearly our core activities. Our objective is for Keller to become a more focused, higher quality business achieving both sustainable operational delivery and cash generation whilst building on our industry-leading margins.

We will concentrate on being the preferred international geotechnical specialist contractor focused on ***sustainable markets and attractive projects***, generating long term value for our stakeholders. Our local businesses will leverage the group's scale and expertise to deliver engineered solutions and operational excellence, driving market share leadership in our selected segments.

To maintain a ***balanced portfolio*** we must select sustainable markets, both by geography and products, in which to set up base businesses that will be profitable through the cycle, and supplement this base business with selective, opportunistic attractive projects. We will seek to exploit customer focused growth opportunities, both organic and through acquisition, and to command a leading share in our chosen markets.

As an experienced specialist geotechnical contractor we are well equipped to deliver value to customers by providing technically robust and cost competitive solutions. We do this by offering alternative designs and ***engineered solutions*** that meet customers' specifications whilst reducing costs.

Whatever construction brief the customer selects for a project, strong operational execution is imperative to remain competitive, and therefore ***operational excellence*** is at the core of the group. We strive to continuously excel operationally and provide safe, on time and high quality delivery of projects. Continuous, incremental improvements will ensure that we remain competitive in our chosen markets.

Our local businesses can leverage the strength of the group by exploiting the ***expertise and scale*** and sustainability of Keller's global processes and resources. This means access to a strong balance sheet and knowledge base across the group, as well as generating benefit from higher utilisation of people and assets. Being a global group we can work to share best practice in operations, technical knowledge, governance and compliance.

Strategic priorities for 2020

The revised strategy will lead to a more focused, higher quality business with industry leading margins, achieving both sustainable operational delivery and cash generation. This enhancement and greater focus will result in the group rationalising its geographic presence and exiting certain non-core markets and activities. We will concentrate our resources on those markets and activities where customers value our skills and expertise to achieve mutual benefits including an appropriate level of financial return.

As a result, we announced in December that we will make a phased withdrawal from South America, where market conditions have proven to be challenging. This will allow the management team to concentrate on our higher quality European businesses within our EMEA division. The withdrawal process is underway and a number of alternative options are in the process of being evaluated in order to select the most appropriate exit for each operation. It is anticipated that this activity will be progressively executed during the coming year.

The first phase of the strategic review of our Franki Africa business has been completed and the second phase has commenced which will be completed by the end of the first half of 2020. The business has faced, and continues to face, challenging market, economic and political conditions in a number of the countries in which it operates. Despite the significant cost reductions carried out in 2019, the business in its current form is unable to deliver the required margins and returns and alternative structures and options are being evaluated. There remain major potential contract opportunities in the region, particularly in the oil and gas sector, and our ability to compete for and execute these will be taken into account in determining how we are able to deliver satisfactory returns overall.

In North America, now that the reorganisation and rebranding of our foundation businesses has been completed we will be focusing on honing the structure and processes of the new organisation to ensure that we realise the fixed cost and operational efficiencies anticipated in our plan. We will also continue the process of assessment and prioritisation of the investment required to realise the incremental benefit of being able to offer all products and services across the whole of North America. This revenue growth will take longer to deliver than the cost and efficiency savings but will be more material in value.

Across the whole group there will be an increased emphasis on performance management in respect of all the activities of the business, particularly projects and business units. Through the improving of management reporting processes, project performance management and other governance improvements, we will place increased importance on realising appropriate rewards. These measures will be enhanced by investing more into the ‘people’ development initiatives in the group, especially in respect of leadership and talent development.

Teams and employees

The knowledge, expertise and experience of our people, and the way our teams work together to deliver a successful project, is the hallmark of Keller. It is why customers value us as a specialist geotechnical contractor, and how we generate value for all of our stakeholders. I would like to acknowledge and thank all of Keller’s employees for their commitment, hard work and expertise during the year.

Outlook

2019 was a significant year of decisive progress for Keller. The return to profit in APAC and the group’s strong cashflow generation underpinned the improved financial performance in the year, which was in line with expectations. Our more focused strategy will ensure that Keller evolves in the future to become a more efficient, higher quality business.

Whilst we are cautiously optimistic and expect another year of continued progress for Keller, supported by our robust order book, we remain cognisant of challenging global macroeconomic conditions and the potential indirect impact of COVID-19. The group’s leading market positions will allow us to benefit from the medium term market trends of urbanisation and infrastructure growth, and we expect to continue to deliver shareholder returns through anticipated growth in underlying profits and our progressive dividend policy.

Operating review

North America

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m	Constant currency
Revenue	**1,333.9**	1,333.9	1,161.4	11%
Underlying operating profit	**78.6**	77.3	78.6	(6%)
Underlying operating margin	**5.9%**	5.8%	6.8%	n/a
Order book	**590.9**	590.9	541.6	14%

In North America, revenue increased by 11%, on a constant currency basis, with 8% organic growth and 3% attributable to a full year benefit of the Moretrench business which was acquired during the first quarter in 2018. On an IAS 17 reported basis, underlying operating profit was £77.3m, down 6% with a margin decline in the US foundations businesses and softness in Canada partly offset by increased profit in Suncoast. The underlying North America operating margin decreased to 5.8% from 6.8%.

In 2019, total construction spend in the US was flat on the prior year. Public and non-residential expenditure on construction grew whilst private residential declined.

The US foundation business increased revenue, driven by strong growth at Hayward Baker and HJ Foundation offset by declines at Bencor and Case. Operating profit declined due to the non-repeat of prior year levels of higher margin emergency work and data centre projects. In addition, 2019 was adversely impacted by a number of problematic contracts which are being resolved. As anticipated, Bencor benefitted in the second half from the resolution of the claim for compensation for a scope adjustment on a large long term contract.

Our Canadian operations have been challenged by continuing softer market conditions, specifically in the Prairies market where there is no sign of a near term return of investment in natural resources. Accordingly, we have recognised an impairment charge of £20.2m in 2019 against the carrying value of the Canadian goodwill. Elsewhere in Canada performance has been mixed, however we still believe in the strategic potential for the business and we have appointed a new management team to explore attractive and sustainable growth opportunities.

Suncoast, the group’s post-tension business which mainly serves the residential construction market, performed strongly, with revenue up by 16% and a significant increase in operating profit. As anticipated, this was driven by our ability to pass on the price increase in steel experienced in 2018 to our customers in the high rise sector. The business produced and sold record volume in 2019 and this strong performance has continued in the early part of the new year.

The Moretrench Industrial business benefitted from some highly profitable projects and is now fully integrated into the North American division following its acquisition in March 2018.

In July we announced the plan to reorganise our North American business by integrating our seven foundation businesses (Bencor, Case, Hayward Baker, HJ Foundation, Keller Canada, McKinney and Moretrench) and branded Keller. This new structure came into effect on 1 January 2020. The new organisation is managed as eight business units, seven geographically based, each with similar revenue and offering the full product portfolio. The eighth offers specialty services that were previously only offered from a limited number of offices. We expect this reorganisation, offering our full range of products and services into the whole of our North American geographic footprint, to drive revenue growth in the future, generating a materially improved financial performance by 2022. The costs of delivering the reorganisation are expected to be approximately £3.0m and are being absorbed by the business through 2019 and 2020 as part of normal operating costs. In the medium term, we expect cost synergies and efficiency benefits in the range of £4.5m to £6.0m per annum. More importantly, we anticipate a gain in market share to support our continued growth in North America.

Whilst we remain suitably cautious on the overall macroeconomic environment in North America, the near-term outlook is encouraging with a strong order book and good momentum going into 2020.

Europe, Middle East & Africa (EMEA)

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m	Constant currency
Revenue	**679.6**	679.6	668.2	2%
Underlying operating profit	**28.4**	28.1	39.7	(31%)
Underlying operating margin	**4.2%**	4.1%	5.9%	n/a
Order book	**287.2**	287.2	273.2	11%

In EMEA, revenue increased by 2% on a constant currency basis, with a strong performance in our Central European business offset by the strong comparator which included two large and highly profitable projects in the Caspian and Middle East which were completed in the prior year. Underlying operating profit was £28.1m, on the comparable IAS 17 reported basis, down by 31%, giving an underlying operating margin of 4.1%, down from 5.9% in the prior year.

The anticipated decline in profitability was largely attributable to the two large projects completed in 2018. Excluding these two projects, the underlying EMEA revenue was up 4% with underlying operating profit down by 8% on a constant currency basis, with a mixed performance across the division.

Our core businesses in Central Europe and South East Europe performed strongly, assisted by a positive market environment. The Scandinavian region is developing well, supported in Norway by the award of a major contract to complete soil stabilisation and grouting works, as part of the Sandbukta-Moss-Sastad rail project.

The UK, representing 3% of overall group revenue, was impacted by the political uncertainty around the government election and Brexit which created a hesitant investment climate for most of 2019. Whilst the HS2 project received government approval in February 2020, we were engaged in the early contractor involvement stage on two sections during 2019. We have completed several tests and trials and were awarded an instrumentation and monitoring contract on the London section.

Our businesses in North East Europe and the Middle East started the year slowly. Following the commencement of higher margin projects in both business units, they finished the year with better momentum which has carried into the early part of 2020.

As announced in December, we will make a phased withdrawal from South America where market conditions have proven to be challenging. This will allow the management team to concentrate on our higher quality European businesses within the division. The withdrawal process is underway and a number of alternative options are in the process of being evaluated in order to select the most appropriate exit for each operation. It is anticipated that this activity will be progressively executed during the coming year.

Despite the restructuring activity that was undertaken during 2018, the Franki Africa business which has been impacted by a deteriorating market, recorded a loss in 2019. A further restructuring programme was undertaken in the second half of 2019 to stabilise the cost base. As previously announced, we have commenced a strategic review of the Franki Africa business, the initial phase is complete and the second phase is underway. We expect the review to be completed by the end of the first half of 2020.

EMEA is well positioned for a positive start to 2020, with a healthy order book and favourable market conditions in our core markets. Full year performance will be dependent on several key project wins together and a continuing favourable macroeconomic environment.

Asia-Pacific (APAC)

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m	Constant currency
Revenue	**287.0**	287.0	394.9	(27%)
Underlying operating profit	**3.3**	2.8	(18.0)	n/a
Underlying operating margin	**1.1%**	1.0%	(4.6%)	n/a
Order book	**164.4**	164.4	143.2	21%

In APAC revenue decreased by 27% on constant currency basis, largely as a result of the reduced scale of the restructured ASEAN and Waterway businesses. The division achieved underlying operating profit of £2.8m on an IAS 17 reported basis, the first time the APAC division has reported a full year profit since the merger in 2016 of the previously separate Australia and Asia divisions. This result was driven by our successful restructuring efforts, reducing divisional overheads and a solid operational performance by our more strategically focused business.

The restructuring activities in ASEAN and Waterway are now largely complete. In ASEAN we have exited from the heavy foundations market in Singapore and Malaysia which enables us to focus on the higher margin ground improvement activities in these markets. In June 2019 we announced we would cease operations at Waterway where we had experienced difficult trading conditions in the marine infrastructure environment on the east coast of Australia. This process has been managed successfully through the second half of 2019. The ASEAN business as a whole delivered a robust performance in the year with the strong Singaporean market offsetting continued weakness in the Malaysian market. All Waterway projects are now complete and the restructuring charge of £11m associated with the Waterway closure was offset by a reversal in the provision for restructuring costs at ASEAN in 2018 and Waterway in the first half of 2019. APAC restructuring activities were cash neutral during 2019.

Following a slow start to the year as a result of two major cyclones and extensive flooding in the Pilbara region in Western Australia, our Austral business finished the year solidly, including securing their largest ever contract win. The contract is to procure and construct the replacement of berthing structures at Rio Tinto's Cape Lambert Port in the Pilbara, worth approximately AUD$125m (c.£70m).

As anticipated, our Australia revenues were down significantly, given the softness in the market. Despite the lower volume, the business delivered a growth in profit year on year as a result of the lower overhead base post restructuring and the successful settlement of a claim relating to the prior year project on the Melbourne Metro Tunnel project.

Keller India had another good year, delivering increased revenue, profit growth and improved operating cash flows.

The APAC division is well placed for 2020, with a reinvigorated organisation and a strong order book across all four geographic businesses.

Chief Financial Officer's review

This report comments on the key financial aspects of the group's 2019 results.

	2019 IFRS 16 basis **£m**	2019 IAS 17 basis £m[1]	2018 IAS 17 basis £m
Revenue	**2,300.5**	2,300.5	2,224.5
Underlying operating profit[2]	**103.8**	101.8	96.6
Underlying operating profit %[2]	**4.5%**	4.4%	4.3%
Non-underlying items	**(29.7)**	(29.7)	(71.6)
Statutory operating profit	**74.1**	72.1	25.0

1 The group adopted IFRS 16 on 1 January 2019 and comparative financial measures have not been restated. The 2019 results prepared on the basis of IAS 17, the previous leasing standard, as well as under IFRS 16 have been presented and commented upon to allow meaningful comparison to prior periods.

2 Details of non-underlying items are set out in note 8 to the consolidated financial statements. Reconciliations to statutory numbers are set out in the Adjusted Performance Measures section of this Announcement.

Revenue

Revenue of £2,300.5m (2018: £2,224.5m) was 3% ahead of 2018 and included the benefit of foreign exchange movements from weaker sterling against the US dollar. At constant currency, revenue increased by 2% reflecting a full year of the Moretrench acquisition in the first quarter of 2018. Growth in North America and EMEA were offset by a decline in APAC. North America reported an increase in revenue of 11% (at constant currency) of which 3% was attributable to a full year of the Moretrench acquisition. EMEA revenue increased by 2% (at constant currency) with positive revenue growth in the Central European business offsetting the impact of completion of two large projects during 2018. APAC revenue declined by 27% (at constant currency) following the planned exit from the ASEAN heavy foundations business in the second half of 2018 and the managed closure of the Waterway business following the decision made in the first half of 2019 to cease operations.

We have a consistently diversified spread of revenues across geographies, product lines, market segments and end customers. Customers are generally market specific and, consistent with the prior year, the largest customer represented less than 2% of the group's revenue. The top 10 customers represent 7% of the group's revenue (2018: 10%). The group worked on more than 7,000 projects in the year at an average revenue of approximately £325,000 per project, clearly demonstrating the benefit of diversification and a wide project portfolio.

Revenue split by geography

£m	**North America**	**EMEA**	**APAC**	**Total**
2019				
H1	611.0	342.4	138.3	1,091.7
H2	722.9	337.2	148.7	1,208.8
Total	**1,333.9**	**679.6**	**287.0**	**2,300.5**
2018				
H1	534.3	324.7	216.1	1,075.1
H2	627.1	343.5	178.8	1,149.4
Total	**1,161.4**	**668.2**	**394.9**	**2,224.5**

	Revenue £m		Underlying operating profit £m			Underlying operating profit margin %		
Year ended	2019	2018	2019 IFRS 16 basis	2019 IAS 17 basis	2018 IAS 17 basis	2019 IFRS 16 basis	2019 IAS 17 basis	2018 IAS 17 basis
Division								
North America	1,333.9	1,161.4	78.6	77.3	78.6	5.9%	5.8%	6.8%
EMEA	679.6	668.2	28.4	28.1	39.7	4.2%	4.1%	5.9%
APAC	287.0	394.9	3.3	2.8	(18.0)	1.1%	1.0%	(4.6)%
Central	-	-	(6.5)	(6.4)	(3.7)	-	-	-
Group	**2,300.5**	**2,224.5**	**103.8**	**101.8**	**96.6**	**4.5%**	**4.4%**	**4.3%**

Underlying operating profit
Underlying operating profit was £103.8m, including the impact of IFRS 16. On an IAS 17 basis, consistent with the prior year, underlying operating profit was £101.8m (2018: £96.6m). The tailwind of favourable US dollar foreign exchange rates against weaker sterling gave a 3% improvement on prior year, with a further 2% growth on a constant currency basis, giving headline growth of 5%. Adjusting for the Moretrench acquisition, at constant currency, underlying operating profit declined by 1%.

North America (on a comparable IAS 17 basis) underlying operating profit fell by 2%. This was as a consequence of high margin project work in 2018 not being repeated in the year and a number of problematic contracts offset by a recovery in Suncoast profit and the full year benefit of Moretrench. EMEA operating profit declined by 29% on the comparable IAS 17 basis, as two notably large and highly profitable projects were completed in 2018. APAC delivered profit in the year following the successful restructuring of the ASEAN heavy foundations and Waterway businesses.

As previously indicated, the profit in the year was significantly weighted to the second half, reflecting a return to the normal profit phasing of the group.

Share of post-tax results from joint ventures
The group recognised a post-tax profit of £0.7m in the year (2018: £1.6m) from its share of the post-tax results from joint ventures. Dividends totalling £1.1m were received from joint ventures in the period.

Statutory operating profit
Statutory operating profit of £74.1m (2018: £25.0m) comprises an underlying operating profit on an IAS 17 basis of £101.8m (2018: £96.6m), a net credit from the application of IFRS 16 of £2.0m, where depreciation on right-of-use assets is less than the corresponding IAS 17 cost of operating leases, and non-underlying items of £29.7m (2018: £71.6m).

Finance costs
Underlying net finance costs on an IAS 17 basis were £18.2m (2018: £16.1m). With average net borrowings during the year, excluding IFRS 16 lease liabilities, being £392.1m, a 3% reduction on the prior year average (2018: £395.4m), the increase in net finance costs is attributable to an increase in the effective interest rate and an increase in the level of gross borrowings during the year.

Statutory net finance costs of £22.5m (2018: £16.6m) include £4.3m of interest cost on the IFRS 16 lease liability in 2019 and non-underlying interest charges of £0.5m in the prior year.

Taxation
The group's underlying effective tax rate was 28%, unchanged from 2018. Cash tax paid in the year of £12.3m was net of a refund of prior year US tax overpayments.

Non-underlying items

Amortisation of acquired intangibles
The £4.3m charge for amortisation of acquired intangible assets relates mainly to the Moretrench, Austral and Sivenmark acquisitions. The prior period charge (2018: £7.9m) included amortisation in relation to Keller Canada, Bencor and Franki Africa acquired intangibles which were fully amortised or impaired in 2018.

Non-underlying operating costs
Non-underlying operating costs were £28.7m (2018: £64.2m) which includes an impairment charge made against the carrying value of Canadian goodwill of £20.2m as well as specifically identified restructuring and acquisition related costs. The impairment of the Canadian goodwill was due to a downward revision to the medium term forecast for Canada

following a deterioration in the Prairies market where there is no sign of a near term return of investment in natural resources. We believe this to be a sustainable business, however the forward looking projections did not fully support the carrying value of the goodwill.

In the second half of 2018 the group announced a group-wide restructuring programme that affected the ASEAN and Waterway businesses in APAC and the Brazil and Franki Africa businesses in EMEA. Significant restructuring costs were recognised during 2018. Restructuring costs of £7.2m charged during 2019 are in respect of a second phase of restructuring launched in the year in both Waterway, resulting in the business running down to eventual closure, and in Franki Africa. These additional charges were offset by a release of ASEAN restructuring provisions that were made in 2018 but reversed following completion of related restructuring activity at less cost than originally provided.

Acquisition related costs of £1.3m in the period relate to professional fees and employee incentives associated with acquisition and divestment activity.

Non-underlying other operating income

Non-underlying other operating income was £3.3m in respect of proceeds received on final settlement of a contributory claim relating to a non-routine contractual dispute that was first reported in 2014. The prior year non-underlying other operating income was in respect of a release of contingent consideration from an acquisition.

Non-underlying taxation

The non-underlying tax charge of £7.5m (2018: £0.3m credit) comprises the tax effect of the non-underlying items noted above and a write-off of £8.5m of deferred tax assets relating to the Australian tax group. This write-off was triggered by the decision to close the Waterway business during the first half of the year.

IFRS 16 'Leases'

The group has adopted IFRS 16 'Leases', using the modified retrospective adoption method which does not require the restatement of prior period comparatives, with an initial date of application of 1 January 2019. IFRS 16 replaces IAS 17, the previous accounting standard, and has had an impact on the costs, profits, assets and liabilities included within the statutory results of the group.

The consolidated income statement, and relevant notes include the results for the current period excluding the effect of IFRS 16, to enable performance comparison with the prior year. The adoption of IFRS 16 does not impact the measurement of the banking covenants, as these are specifically tested on an IAS 17 basis.

The impact of IFRS 16 on the result for 2019 was a net reduction in profit after tax of £1.6m comprising a £2.0m credit to operating profit, interest charges on the lease liability of £4.3m and a reduction in corporate tax charge of £0.7m. The balance sheet at 31 December 2019 includes right-of-use assets of £74.0m and additional lease liabilities of £76.7m. The full impact of IFRS 16 is detailed in note 2 'Change in accounting policies and disclosures', note 15 b) 'Property, plant and equipment – leased assets' and note 25 'Lease liabilities'.

Earnings per share

Underlying diluted earnings per share on an IAS 17 basis increased by 6% to 83.5p (2018: 79.1p). This is in line with the increase in the group's underlying profit after tax. Statutory diluted earnings per share was 29.7p (2018: loss 20.6p).

Dividend

The Board has recommended a final dividend of 27.4p per share (2018: 23.9p per share), which brings the total dividend for the year to 40.0p (2018: 35.9p). This represents an increase of 11% on the prior year, with the usual 5% increase plus a non-recurring supplementary dividend of 2.3p per share. The 2019 dividend earnings cover, before non-underlying items, was 2.1x (2018: 2.2x).

The group's dividend policy is to increase the dividend sustainably whilst allowing the group to be able to grow, or as a minimum, maintain, the level of dividend through market cycles. The Board has announced its intention to declare a non-recurring supplementary dividend of 4.4p per share for 2020, to bring the total full year dividend for 2020 to 44p per share.

Keller Group plc has distributable reserves of £145.8m at 31 December 2019 that are available to support the dividend policy which comfortably covers the proposed full year dividend for 2019 of £28.8m. Keller Group plc is a non-trading investment company that derives its profits from dividends paid by subsidiary companies. The dividend policy is therefore impacted by the performance of the group which is subject to the group's principal risks and uncertainties as well as the level of headroom on the group's borrowing facilities and future cash commitments and investment plans.

Prior-year restatement
As a result of a change in accounting policy and a reclassification in the classification of liabilities, the comparative consolidated balance sheet as at 31 December 2019 has been restated. The group has increased provisions by £18.8m to reflect contract insurance liabilities in the group's captive insurance arrangement, with a corresponding reduction in retained earnings. Additionally, trade and other payables have been reduced by £8.6m to better reflect the classification of certain legal claims within provisions.

Acquisitions
There were no material acquisitions in the period.

Working capital
Net working capital decreased from £225.4m in 2018 to £210.5m. The £54.3m cash flow from increased receivables during the year was broadly offset by an £6.2m decrease in inventory and a £46.5m increase in payables. Full year working capital performance included approximately £40m of timing benefit that will partially reverse in 2020.

Capital expenditure
The group manages capital expenditure tightly whilst investing in the upgrade and replacement of equipment where appropriate. Net capital expenditure of £52.0m was net of proceeds from the sale of equipment of £10.9m. The Asset Replacement Ratio, which is calculated by dividing gross capex spend by the depreciation charge was 66%. On an IAS 17 basis, excluding assets capitalised as a result of adopting IFRS 16, the Asset Replacement Ratio was 91% (2018: 122%), a result of the focus on more efficient capex and asset management.

Free cash flow
The group's free cash flow of £94.1m on an IAS 17 basis (2018: £58.0m) is more than sufficient to fund, in cash terms, the full value of the payment in relation to the total 2019 dividend of £26.3m (2018: £26.3m). The basis of deriving free cash flow is set out below:

Operating and free cash flow

	2019 IFRS 16 basis **£m**	**2019** IAS 17 basis **£m**	**2018** IAS 17 basis **£m**
Underlying operating profit	103.8	101.8	96.6
Depreciation and amortisation	94.6	69.0	70.9
Underlying EBITDA	**198.4**	**170.8**	**167.5**
Non-cash items	13.4	13.4	3.6
Dividends from joint ventures	1.1	1.1	0.9
(Increase)/decrease in working capital	(1.6)	(2.0)	1.5
Outflows from provisions and retirement benefit liabilities	(12.3)	(12.3)	(10.1)
Net capital expenditure	(52.0)	(52.0)	(77.1)
Additions to IFRS 16 right-of-use assets	(22.9)	-	-
Sale of other non-current assets	4.6	4.6	3.5
Operating cash flow	**128.7**	**123.6**	**89.8**
Operating cash flow to operating profit	**124%**	**121%**	**93%**
Net interest paid	(21.5)	(17.2)	(15.1)
Cash tax paid	(12.3)	(12.3)	(16.7)
Free cash flow	**94.9**	**94.1**	**58.0**
Dividends paid to shareholders	(26.3)	(26.3)	(26.3)
Acquisitions	2.1	2.1	(77.5)
Non-underlying items	0.4	0.4	(5.2)
Right-of-use assets / lease liability modifications	7.1	-	-
Foreign exchange movements	6.3	2.8	(5.7)
Movement in net debt	**84.5**	**73.1**	**(56.7)**
Opening net debt	**(286.2)**	**(286.2)**	**(229.5)**
Impact of adopting IFRS 16	(88.1)	-	-
Closing net debt	**(289.8)**	**(213.1)**	**(286.2)**

Financing facilities and net debt
The group's term debt and committed facilities principally comprise US private placements of US $125m (£97m) which mature between 2021 and 2024 and a £375m multi-currency syndicated revolving credit facility. In November 2019 the planned one year extension of the revolving credit facility was agreed with the banking group, extending the expiry date of the facility to November 2024. At the year end, the group had undrawn committed and uncommitted borrowing facilities totalling £247m.

The most significant covenants in respect of the main borrowing facilities relate to the ratio of net debt to underlying EBITDA, underlying EBITDA interest cover and the group's net worth. The covenants are required to be tested at the half year and the year end. The group operates comfortably within all of its covenant limits. The key banking covenant is net debt to underlying EBITDA leverage measure, calculated excluding the impact of IFRS 16, which at 31 December 2019 was 1.2x (2018: 1.7x), well within the limit of 3.0x. The group aims to operate at a leverage between 1.0x-1.5x and is well placed to do this. Calculated on a statutory basis, including the impact of IFRS 16, net debt to EBITDA leverage was 1.5x at 31 December 2019.

Year end gearing was 53% (2018: 67%) on an IAS 17 basis with net assets of £399.3m. On an IFRS 16 basis, gearing was 73%.

The average month end net debt during 2019, excluding IFRS 16 lease liabilities, was £327.9m and the minimum headroom during the year on the group's main banking facility was £84.2m, in addition to a cash balance at that time of £56.7m. The group had no material discounting or factoring in place during the year. Given the relatively low value and short-term nature of the majority of the group's projects, the level of advance payments are typically not significant.

The group had drawn upon uncommitted overdraft facilities to the value of £11.4m and had drawn £188.3m of bank guarantee and bonding facilities at 31 December 2019.

Provision for pension

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

The group's UK defined benefit scheme is closed to future benefit accrual. The last actuarial valuation of the UK scheme was as at 5 April 2017, which recorded the market value of the scheme's assets at £45.0m and the scheme being 71% funded on an ongoing basis. The level of contributions are £2.4m a year with effect from 1 July 2018. Contributions will be reviewed following the next triennial actuarial valuation to be prepared as at 5 April 2020. The 2019 year end IAS 19 valuation of the UK scheme showed assets of £52.2m, liabilities of £62.2m and a pre-tax deficit of £10.0m.

In Germany and Austria, the defined benefit arrangements only apply to certain employees who joined the group before 1991. The IAS 19 valuation of the defined benefit obligation totalled £17.7m at 31 December 2019. There are no segregated funds to cover these defined benefit obligations and the respective liabilities are included on the group balance sheet.

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

Currencies

The group is exposed to both translational and, to a lesser extent, transactional foreign currency gains and losses through movements in foreign exchange rates as a result of its global operations. The group's primary currency exposures are US dollar, Canadian dollar, euro, Singapore dollar and Australian dollar.

As the group reports in sterling and conducts the majority of its business in other currencies movements in exchange rates can result in significant currency translation gains or losses. This has an effect on the primary statements and associated balance sheet metrics, such as net debt and working capital.

A large proportion of the group's revenues are matched with corresponding operating costs in the same currency. The impact of transactional foreign exchange gains or losses are consequently mitigated and are recognised in the period in which they arise.

The following exchange rates applied during the current and prior year:

	2019		2018	
	Closing	**Average**	**Closing**	**Average**
USD	1.33	1.28	1.27	1.33
CAD	1.72	1.70	1.74	1.73
EUR	1.18	1.14	1.11	1.13
SGD	1.78	1.74	1.74	1.80
AUD	1.89	1.84	1.80	1.79

Treasury policies

Currency risk

The group faces currency risk principally on its net assets, most of which are in currencies other than sterling. The group aims to reduce the impact that retranslation of these net assets might have on the consolidated balance sheet, by matching the currency of its borrowings, where possible, with the currency of its assets. The majority of the group's borrowings are held in sterling, US dollar, Canadian dollar, euro, Australian dollar, Singapore dollar, Emirati dirham and South African rand.

The group manages its currency flows to minimise transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the group relate to repatriation of profits, intra-group loan repayments and any foreign currency cash flows associated with acquisitions. The group's treasury risk management is performed at the group's head office.

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

Interest rate risk

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

Credit risk

The group's principal financial assets are trade and other receivables, bank and cash balances and a limited number of investments and derivatives held to hedge certain group liabilities. These represent the group's maximum exposure to credit risk in relation to financial assets.

The group has procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution by reference to their credit rating and by regular review of these ratings.

Return on capital employed

Return on capital employed is defined at group level as underlying operating profit divided by the accounting value of equity attributable to equity holders of the parent plus net debt plus retirement benefit liabilities. Return on capital employed in 2019 was 14.4% (14.9% on an IAS 17 basis, 2018: 13.2%).

Impact of Brexit

The UK referendum vote to leave the European Union has led to a period of prolonged economic and political uncertainty in the country. This has impacted our operations in the UK however the group's UK business represents less than 3% of group revenue. Depending upon the nature and timing of the final Brexit agreement, expected to be put in place by 31 December 2020, there may be further adverse operational impacts in the form of cross border raw material and personnel movements and/or additional burdens to the dividend and treasury flows within the group. Any material movements in exchange rates may also impact the headroom of the group's debt facilities which are mainly denominated in sterling. The Board has taken the above effects into account in its financial scenario modelling and its going concern considerations. Overall, the Board does not envisage any sustained material threat to the group's business performance.

Principal risks

The group operates globally across many geotechnical market sectors and in varied geographic markets. The group's performance and prospects may be affected by risks and uncertainties in relation to the industry and the environments in which it undertakes its operations around the world. Those risks include: financial risks – the inability to finance our business; market risk – a rapid downturn in our markets; strategic risk – the failure to procure new contracts, losing market share, non-compliance with our code of business conduct; operational risk – product and/or solution failure, the ineffective management of our contracts, causing a serious injury or fatality to an employee or member of the public, and not having the right skills to deliver.

The group is alert to the challenges of managing risk and has systems and procedures in place across the group to identify, assess and mitigate major business risks. Project Lifecycle Management (PLM) was launched in late 2019 to improve the detailed process of project risk identification and mitigation from contract tender through to project completion. We will continue to develop and improve PLM with feedback from the project team as they roll the requirements out during 2020.

The directors have reviewed the principal risks and uncertainties and are satisfied that they are relevant and appropriate. A full review of the group's principal risks and uncertainties is given in the Strategic Report within the group's Annual Report and Accounts.

Consolidated income statement
For the year ended 31 December 2019

		2019					2018		
	Note	Underlying IAS 17 basis £m	IFRS 16 impact[1] £m	**Underlying IFRS 16 basis £m**	**Non-underlying items (note 8) £m**	**Statutory IFRS 16 basis £m**	Underlying IAS 17 basis £m	Non-underlying items (note 8) £m	Statutory IAS 17 basis £m
Revenue	3,4	2,300.5	–	**2,300.5**	–	**2,300.5**	2,224.5	–	2,224.5
Operating costs	6	(2,199.4)	2.0	**(2,197.4)**	**(28.7)**	**(2,226.1)**	(2,129.5)	(64.2)	(2,193.7)
Amortisation of acquired intangible assets		–	–	–	**(4.3)**	**(4.3)**	–	(7.9)	(7.9)
Other operating income		–	–	–	**3.3**	**3.3**	–	0.5	0.5
Share of post-tax results of joint ventures	16	0.7	–	**0.7**	–	**0.7**	1.6	–	1.6
Operating profit/(loss)	3	101.8	2.0	**103.8**	**(29.7)**	**74.1**	96.6	(71.6)	25.0
Finance income	9	0.8	–	**0.8**	–	**0.8**	0.6	–	0.6
Finance costs	10	(19.0)	(4.3)	**(23.3)**	–	**(23.3)**	(16.7)	(0.5)	(17.2)
Profit/(loss) before taxation		83.6	(2.3)	**81.3**	**(29.7)**	**51.6**	80.5	(72.1)	8.4
Taxation	11	(23.1)	0.7	**(22.4)**	**(7.5)**	**(29.9)**	(22.5)	0.3	(22.2)
Profit/(loss) for the year		60.5	(1.6)	**58.9**	**(37.2)**	**21.7**	58.0	(71.8)	(13.8)
Attributable to:									
Equity holders of the parent		60.2	(1.6)	**58.6**	**(37.2)**	**21.4**	57.0	(71.8)	(14.8)
Non-controlling interests	32	0.3	–	**0.3**	–	**0.3**	1.0	–	1.0
		60.5	(1.6)	**58.9**	**(37.2)**	**21.7**	58.0	(71.8)	(13.8)
Earnings/(loss) per share									
Basic	13	83.5p		**81.3p**		**29.7p**	79.2p		(20.6)p
Diluted	13	83.5p		**81.3p**		**29.7p**	79.1p		(20.6)p

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit/(loss) for the year		**21.7**	(13.8)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(22.0)**	8.8
Cash flow hedge gains taken to equity	24	–	1.0
Cash flow hedge transfers to income statement	24	–	(1.0)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension schemes	31	**(3.2)**	0.8
Tax on remeasurements of defined benefit pension schemes	11	**0.6**	(0.1)
Other comprehensive (loss)/income for the year, net of tax		**(24.6)**	9.5
Total comprehensive loss for the year, net of tax		**(2.9)**	(4.3)
Attributable to:			
Equity holders of the parent		**(3.3)**	(5.4)
Non-controlling interests		**0.4**	1.1
		(2.9)	(4.3)

Consolidated balance sheet
As at 31 December 2019

	Note	2019 £m	2018[2] £m
Assets			
Non-current assets			
Goodwill and intangible assets	14	**124.7**	153.4
Property, plant and equipment[1]	15	**460.6**	422.0
Investments in joint ventures	16	**3.8**	4.6
Deferred tax assets	11	**13.3**	26.9
Other assets	17	**22.3**	21.5
		624.7	628.4
Current assets			
Inventories	18	**70.6**	80.3
Trade and other receivables	19	**626.7**	610.9
Current tax assets		**4.2**	14.7
Cash and cash equivalents	20	**98.9**	110.5
		800.4	816.4
Total assets	3	**1,425.1**	1,444.8
Liabilities			
Current liabilities			
Loans and borrowings[1]	24,25	**(41.0)**	(42.8)
Current tax liabilities		**(21.1)**	(18.6)
Trade and other payables	21	**(486.8)**	(465.8)
Provisions	22	**(17.7)**	(11.0)
		(566.6)	(538.2)
Non-current liabilities			
Loans and borrowings[1]	24,25	**(347.7)**	(353.9)
Retirement benefit liabilities	31	**(27.7)**	(27.9)
Deferred tax liabilities	11	**(26.1)**	(37.9)
Provisions	22	**(40.0)**	(41.8)
Other liabilities	23	**(19.5)**	(18.6)
		(461.0)	(480.1)
Total liabilities	3	**(1,027.6)**	(1,018.3)
Net assets	3	**397.5**	426.5
Equity			
Share capital	26	**7.3**	7.3
Share premium account		**38.1**	38.1
Capital redemption reserve	26	**7.6**	7.6
Translation reserve		**19.1**	41.2
Other reserve	26	**56.9**	56.9
Retained earnings		**263.2**	270.5
Equity attributable to equity holders of the parent		**392.2**	421.6
Non-controlling interests	32	**5.3**	4.9
Total equity		**397.5**	426.5

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated.

[2] Trade and other payables, provisions and retained earnings presented here do not agree to the published 2018 consolidated financial statements as a result of re-presenting the comparative balance sheet as outlined in note 33 to the financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 3 March 2020.

They were signed on its behalf by Michael Speakman, Chief Executive Officer:

Michael Speakman
Chief Executive Officer

Mark Hooper
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 31 December 2019

	Share capital (note 26) £m	Share premium account £m	Capital redemption reserve (note 26) £m	Translation reserve £m	Other reserve (note 26) £m	Hedging reserve (note 24) £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests (note 32) £m	**Total equity £m**
At 1 January 2018	7.3	38.1	7.6	32.5	56.9	–	326.0	**468.4**	3.8	**472.2**
Adjustment on initial application of IFRS 15	–	–	–	–	–	–	2.3	**2.3**	–	**2.3**
Prior year restatement[1]	–	–	–	–	–	–	(18.8)	**(18.8)**	–	**(18.8)**
(Loss)/profit for the year	–	–	–	–	–	–	(14.8)	**(14.8)**	1.0	**(13.8)**
Other comprehensive income										
Exchange differences on translation of foreign operations	–	–	–	8.7	–	–	–	**8.7**	0.1	**8.8**
Cash flow hedge gains taken to equity	–	–	–	–	–	1.0	–	**1.0**	–	**1.0**
Cash flow hedge transfers to income statement	–	–	–	–	–	(1.0)	–	**(1.0)**	–	**(1.0)**
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	0.8	**0.8**	–	**0.8**
Tax on remeasurements of defined benefit pension schemes	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Other comprehensive income for the year, net of tax	–	–	–	8.7	–	–	0.7	**9.4**	0.1	**9.5**
Total comprehensive income/(loss) for the year	–	–	–	8.7	–	–	(14.1)	**(5.4)**	1.1	**(4.3)**
Dividends	–	–	–	–	–	–	(26.3)	**(26.3)**	–	**(26.3)**
Share-based payments	–	–	–	–	–	–	1.4	**1.4**	–	**1.4**
At 31 December 2018 and 1 January 2019[1]	7.3	38.1	7.6	41.2	56.9	–	270.5	**421.6**	4.9	**426.5**
Profit for the year	–	–	–	–	–	–	21.4	**21.4**	0.3	**21.7**
Other comprehensive income										
Exchange differences on translation of foreign operations	–	–	–	(22.1)	–	–	–	**(22.1)**	0.1	**(22.0)**
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	(3.2)	**(3.2)**	–	**(3.2)**
Tax on remeasurements of defined benefit pension schemes	–	–	–	–	–	–	0.6	**0.6**	–	**0.6**
Other comprehensive (loss)/ income for the year, net of tax	–	–	–	(22.1)	–	–	(2.6)	**(24.7)**	0.1	**(24.6)**
Total comprehensive (loss)/income for the year	–	–	–	(22.1)	–	–	18.8	**(3.3)**	0.4	**(2.9)**
Dividends	–	–	–	–	–	–	(26.3)	**(26.3)**	–	**(26.3)**
Share-based payments	–	–	–	–	–	–	0.2	**0.2**	–	**0.2**
At 31 December 2019	**7.3**	**38.1**	**7.6**	**19.1**	**56.9**	–	**263.2**	**392.2**	**5.3**	**397.5**

[1] Retained earnings and total equity presented here do not agree to the published 2018 consolidated financial statements as a result of re-presenting the comparative balance sheet as outlined in note 33 to the financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Underlying operating profit (as per consolidated income statement)	3	**103.8**	96.6
Depreciation of property, plant and equipment	15	**94.0**	69.7
Amortisation of intangible assets	14	**0.6**	1.2
Share of post-tax results of joint ventures	16	**(0.7)**	(1.6)
Loss/(profit) on sale of property, plant and equipment		**2.2**	(1.7)
Other non-cash movements		**12.3**	7.0
Foreign exchange gains		**(0.4)**	(0.1)
Operating cash flows before movements in working capital		**211.8**	171.1
Decrease/(increase) in inventories		**6.2**	(8.0)
(Increase)/decrease in trade and other receivables		**(54.3)**	26.0
Increase/(decrease) in trade and other payables		**46.5**	(16.5)
Decrease in provisions, retirement benefit and other non-current liabilities		**(12.3)**	(10.1)
Cash generated from operations before non-underlying items		**197.9**	162.5
Cash inflows/(outflows) from non-underlying items: contract dispute		**3.3**	(0.8)
Cash outflows from non-underlying items: acquisition costs		**(0.7)**	–
Cash outflows from non-underlying items: restructuring costs		**(2.2)**	(4.4)
Cash generated from operations		**198.3**	157.3
Interest paid		**(22.1)**	(15.8)
Income tax paid		**(12.3)**	(16.7)
Net cash inflow from operating activities		**163.9**	124.8
Cash flows from investing activities			
Interest received		**0.6**	0.7
Proceeds from sale of property, plant and equipment		**10.9**	8.5
Proceeds from sale of other non-current assets	17	**4.6**	3.5
Acquisition of subsidiaries, net of cash acquired	5	**(0.6)**	(68.4)
Cash received from escrow	5	**2.7**	–
Acquisition of property, plant and equipment	15	**(62.2)**	(85.1)
Acquisition of other intangible assets	14	**(0.7)**	(0.5)
Dividends received from joint ventures	16	**1.1**	0.9
Net cash outflow from investing activities		**(43.6)**	(140.4)
Cash flows from financing activities			
New borrowings		**37.0**	281.7
Repayment of borrowings		**(118.6)**	(186.1)
Cash flows from derivative instruments	24	**(0.1)**	1.5
Payment of lease liabilities (2018: Payment of finance lease liabilities)		**(23.9)**	(1.6)
Dividends paid	12	**(26.3)**	(26.3)
Net cash (outflow)/inflow from financing activities		**(131.9)**	69.2
Net (decrease)/increase in cash and cash equivalents		**(11.6)**	53.6
Cash and cash equivalents at beginning of year		**103.7**	51.3
Effect of exchange rate fluctuations		**(4.6)**	(1.2)
Cash and cash equivalents at end of year	20	**87.5**	103.7

Notes to the consolidated financial statements

1 Corporate information

The consolidated financial statements of Keller Group plc and its subsidiaries (collectively, 'the group') for the year ended 31 December 2019 were authorised for issue in accordance with the resolution of the directors on 3 March 2020.

Keller Group plc ('the company') is a public limited company, incorporated and domiciled in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The registered office is located at 5th floor, 1 Sheldon Square, London W2 6TT. The group is principally engaged in the provision of specialist geotechnical engineering services.

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements do not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018 but are derived from the 2019 accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies. Those for 2019 will be delivered to the Registrar of Companies and made available on the company's website at www.keller.com in April 2020. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand (£m), except when otherwise indicated.

In preparing the consolidated balance sheet for the year ended 31 December 2019, the group adjusted amounts previously reported as at 31 December 2018 and as such the consolidated balance sheet has been restated. The following items within the consolidated balance sheet reported in the group's financial statements at 31 December 2018 have been restated. Provisions have been restated to reflect contract insurance liabilities in the group's captive insurance arrangement and to reflect the revised classification of legal provisions. Trade and other payables have been restated to reflect the revised classification of legal provisions. Refer to note 33 for further details.

The consolidated financial statements are prepared on a going concern basis.

The company prepares its parent company financial statements in accordance with FRS 101.

Basis of consolidation

The consolidated financial statements consolidate the accounts of the parent and its subsidiary undertakings to 31 December each year. Subsidiaries are entities controlled by the company. Control exists when the company has power over an entity, exposure to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns. Where subsidiary undertakings were 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. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Joint operations

Where the group undertakes contracts jointly with other parties, these are accounted for as joint operations as defined by IFRS 11. In accordance with IFRS 11, the group accounts for its own share of assets, liabilities, revenues and expenses measured according to the terms of the joint operations agreement.

Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The consolidated financial statements incorporate a share of the results, assets and liabilities of joint ventures using the equity method of accounting, whereby the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment. Losses in excess of the consolidated interest in joint ventures are not recognised except where the group has a constructive commitment to make good those losses. The results of joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Changes in accounting policies and disclosures

New and amended standards and interpretations

The group has adopted IFRS 16 'Leases' from 1 January 2019. The nature and effect of this standard is detailed below. Other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the group. The group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 'Leases'

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the balance sheet.

The group has adopted IFRS 16 using the modified retrospective approach method of adoption with the initial date of application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. As a consequence, the comparative information presented for 2018 has not been restated. The group also elected to use the recognition exemptions for lease contracts that have a lease term of 12 months or less and do not contain a purchase option and lease contracts for which the underlying asset is of low value (eg leases of office equipment that are considered of low value, below £3,000).

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	£m
Assets	
Property, plant and equipment	87.3
Other assets	(0.1)
Total assets	**87.2**
Liabilities	
Loans and borrowings	88.1
Trade and other payables	(0.7)
Provisions	(0.2)
Total liabilities	**87.2**

The group has lease contracts for land and buildings, plant, machinery and vehicles. Prior to the adoption of IFRS 16, the group classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risk and rewards of ownership of the leased asset to the group, otherwise it was classified as an operating lease. Assets under finance leases were capitalised at the commencement of the lease. For an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and trade and other payables, respectively.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the group.

Leases previously classified as finance leases

The group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (ie the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019. At the date of transition to IFRS 16, the group held £2.1m of assets and liabilities previously classified as finance leases.

Leases previously accounted for as operating leases

The group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted at the incremental borrowing rate at the date of initial application.

The group also applied the available practical expedients as follows:

- Reliance was placed on the previous identification of a lease as outlined in IAS 17 'Leases' for all contracts that existed on the date of initial application
- Reliance was placed on its assessment of whether leases are onerous immediately before the date of initial application instead of performing an impairment assessment as required under IAS 36 'Impairment of assets'
- The short-term lease exemptions to leases with a lease term that ends within 12 months of the date of initial application

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018, as follows:

		£m
Operating lease commitments as at 31 December 2018[1]		**86.2**
Weighted average incremental borrowing rate as at 1 January 2019[2]	5.2%	
Discounted operating lease commitments as at 1 January 2019		79.4
Less		
Commitments relating to short-term leases[3]		(3.7)
Commitments relating to leases of low-value assets		(0.3)
Add		
Lease payments relating to renewal options not included in operating leases		12.7
Lease liabilities as at 1 January 2019		**88.1**

[1]Operating lease commitments presented here do not agree to note 27 of the published 2018 consolidated financial statements as a result of adjusting the operating lease commitments.
[2]Under the modified retrospective method of transition to IFRS 16, lease payments were discounted at 1 January 2019 using the incremental borrowing rate. This represents the discount rate that the reporting unit within the group which holds the lease would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The weighted average incremental borrowing rate applied by the group is 5.2%.
[3]The group elected to apply the practical expedient to exempt leases with a lease term that ends within 12 months of the date of initial application of IFRS 16 as short-term leases.

IFRIC 23 'Uncertainty over Income Tax Treatment'
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that best predicts the resolution of the uncertainty.

The group applies significant judgement in identifying uncertainties over income tax treatments. As the group operates in a complex global environment, it assessed whether the interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the group.

Amendments to IAS 19 'Employee benefits'
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when such an event occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement. This is done using the actuarial assumptions used to remeasure the net defined benefit asset or liability reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit asset or liability. The amendment did not have an impact on the consolidated financial statements of the group.

Amendments to IAS 12 'Income Taxes'
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income (OCI) or equity according to when it originally recognised those past transactions or events.

Summary of significant accounting policies

Foreign currencies
The group's consolidated financial statements are presented in pounds sterling, which is also the parent company's functional currency. For each entity, the group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into pounds sterling at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the average rate.

The exchange rates used in respect of principal currencies are:

Average rates	**2019**	2018
US dollar	**1.28**	1.33
Canadian dollar	**1.70**	1.73
euro	**1.14**	1.13
Singapore dollar	**1.74**	1.80
Australian dollar	**1.84**	1.79

Year end rates	**2019**	2018
US dollar	**1.33**	1.27
Canadian dollar	**1.72**	1.74
euro	**1.18**	1.11
Singapore dollar	**1.78**	1.74
Australian dollar	**1.89**	1.80

Revenue from contracts with customers
The group’s operations involve the provision of specialist geotechnical engineering services. The majority of the group’s revenue is derived from construction contracts. Typically, the group’s construction contracts consist of one performance obligation, however for certain contracts (for example where contracts involve separate phases or products that are not highly interrelated) multiple performance obligations exist. Where multiple performance obligations exist, total revenue is allocated to performance obligations based on the relative standalone selling prices of each performance obligation.

For each contract, revenue is the amount that is expected to be received from the customer. Where consideration is variable, this is recognised only to the extent that it is highly probable that there will not be a significant reversal. The effect of contract modifications are recognised only when the group considers there is an enforceable right to consideration.

Revenue attributed to each performance obligation is recognised based on either the input or the output method, as appropriate:

- Input method: revenue is recognised on the percentage of completion with reference to cost. The percentage of completion is calculated based on the costs incurred to date as a percentage of the total costs expected to satisfy the performance obligation. Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the percentage of completion calculation in the period in which the circumstances that give rise to the revision become known
- Output method: revenue is recognised on the direct measurement of progress based on output, such as units of production relative to the total number of contracted production units

Where the group becomes aware that a loss may arise on a total contract, and that loss is probable, full provision for the loss is recognised in the consolidated balance sheet.

Incremental bid/tender costs and fulfilment costs are not material to the overall contract and are expensed as incurred.

Any revenues recognised in excess of billings are recognised as contract assets within trade and other receivables. Any payments received in excess of revenue recognised are recognised as contract liabilities within trade and other payables.

Revenue from the sale of goods and services
The group’s revenue recognised from the sale of goods and services primarily relates to certain parts of the North American business. These contracts typically have a single performance obligation, or a series of distinct performance obligations that are substantially the same. There are typically two types of contract:

- Delivery of goods: revenue for such contracts is recognised at a point in time, on delivery of the goods to the customer
- Delivery of goods with installation and/or post-delivery services: revenue for these contracts is recognised over time by reference to the percentage of completion. The percentage of completion is calculated as the costs incurred to date as a percentage of the total costs expected to satisfy the contract, however this results in most of the revenue being recognised on delivery of the goods to the customer as this forms the majority of the cost to the group

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the group operates and generates taxable income. Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax is recognised on temporary differences in line with IAS 12, 'Income Taxes'. Deferred tax assets are recognised when it is considered likely that they will be utilised against future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or to other comprehensive income, in which case the related deferred tax is also dealt with in equity or in other comprehensive income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Interest income and expense

All interest income and expense is recognised in the income statement in the period in which it is incurred using the effective interest method.

Employee benefit costs

The group operates a number of defined benefit pension arrangements, and also makes payments into defined contribution schemes for employees.

The liability in respect of defined benefit schemes is the present value of the defined benefit obligations at the balance sheet date, calculated using the projected unit credit method, less the fair value of the schemes' assets. As allowed by IAS 19, the group recognises the administration costs, current service cost and interest on scheme net liabilities in the income statement, and remeasurements of defined benefit plans in other comprehensive income in full in the period in which they occur. Payments to defined contribution schemes are accounted for on an accruals basis.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation

Depreciation is not provided on freehold land.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment using the straight-line method by reference to their estimated useful lives as follows:

- Buildings 50 years
- Plant and equipment 8 to 12 years
- Motor vehicles 4 years
- Computers 3 years

An item of property, plant and equipment recognised is derecognised upon disposal (ie at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted where appropriate.

Leases (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Property, plant and equipment acquired under finance leases are capitalised in the balance sheet at the lower of fair value or present value of minimum lease payments and depreciated in accordance with the group's accounting policy. The capital element of the leasing commitment is included as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the consolidated income statement, and capital, which reduces the outstanding obligation. Amounts payable under operating leases are charged to operating costs on a straight-line basis over the lease term.

Leases (from 1 January 2019)

The group assess at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (less than £3,000). The group recognises lease liabilities to make payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use asset

The group recognises right-of-use assets at the commencement date of the lease (ie the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

- Land and buildings 5 to 15 years
- Plant and equipment 3 to 8 years
- Motor vehicles 3 to 5 years

The right-of-use asset is also subject to impairment. Right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets'. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group and payments of penalties for terminating a lease, if the lease term reflects the group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date, if the interest rate implicit in the lease is not readily determinable. The incremental borrowing rate applied to each lease was determined by taking in to account the risk-free rate of the country where the asset under lease is located matched to the term of the lease and adjusted for factors such as the credit risk profile of the lessor. Incremental borrowing rates applied to individual leases range from 2.02% to 27.70%.

After the commencement date, the amount of lease liabilities is increased to reflect the addition of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (eg changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The group's lease liabilities are included in interest-bearing loans and borrowings. Refer to note 25 for details.

Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases of plant, machinery and vehicles (ie those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (below £3,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred and included in administrative expenses. When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually and whenever there is an indication that the goodwill may be impaired in accordance with IAS 36, with any impairment losses being recognised immediately in the income statement. Goodwill arising prior to 1 January 1998 was taken directly to equity in the year in which it arose. Such goodwill has not been reinstated on the balance sheet. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Other intangible assets

Intangible assets, other than goodwill, include purchased licences, software, patents, customer relationships, customer contracts and trade names. Other intangibles include internally developed software. Intangible assets are capitalised at cost and amortised on a straight-line basis over their useful economic lives from the date that they are available for use and are stated at cost less accumulated amortisation and impairment losses. The estimated useful economic lives are as follows:

• Licenses	1 to 14 years
• Software	3 to 7 years
• Patents	2 to 7 years
• Customer relationships	5 to 7 years
• Customer contracts	1 to 2 years
• Trade names	5 to 7 years

Impairment of assets excluding goodwill

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired. If any such indications exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

Capital work in progress

Capital work in progress represents expenditure on property, plant and equipment in the course of construction. Transfers are made to other property, plant and equipment categories when the assets are available for use.

Inventories

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

Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Financial instruments

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the group are as follows:

(a) Trade receivables and trade payables
Trade receivables are initially recorded at fair value and subsequently measured at cost and reduced by allowances for estimated irrecoverable amounts as disclosed in the 'revenue from contracts with customers' accounting policy.

For trade and other receivables and contract assets, the group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Trade payables are not interest bearing, are initially recognised at fair value and where applicable carried at amortised cost.

(b) Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the group's cash management. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Subsequent to initial recognition, borrowings are stated at amortised cost, where applicable.

Bank or other borrowings are derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(d) Derivative financial instruments and hedge accounting
The group uses derivative financial instruments to manage interest rate risk and to hedge fluctuations in foreign currencies in accordance with its risk management policy. In cases where these derivative instruments are significant, hedge accounting is applied as described below. The group does

not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised in the balance sheet at fair value on the date the derivative contract is entered into and are subsequently remeasured at reporting periods to their fair values. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Changes in the fair value of the effective portion of derivatives that are designated and qualify as cash flow hedges are recognised in OCI within the statement of comprehensive income. Changes in the fair value of the ineffective portion of cash flow hedges are recognised in the income statement. Amounts originally recognised in OCI are transferred to the income statement when the underlying transaction occurs or, if the transaction results in a non-financial asset or liability, are included in the initial cost of that asset or liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in OCI is retained in equity until the hedged transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in OCI is transferred to the income statement in the period.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging the exposure or variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and where it is probable that an outflow will be required to settle the obligation.

Provisions for insurance liabilities retained in the group’s captive insurance arrangements and legal claims are recognised as the best estimate of the expenditure required to settle the group’s liability.

Financial guarantees

Where group companies enter into financial guarantee contracts to guarantee the indebtedness or obligations of other companies within the group, these are considered to be insurance arrangements, and are accounted for as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the guarantor will be required to make a payment under the guarantee.

Share-based payments

The group operates a number of equity-settled executive and employee share plans. For all grants of share options and awards, the fair value at the grant date is calculated using appropriate option pricing models. The grant date fair value is recognised over the vesting period as an expense, with a corresponding increase in retained earnings.

Segmental reporting

The group comprises three geographical divisions which have only one major product or service: specialist geotechnical services. North America; Europe, Middle East and Africa; and Asia-Pacific continue to be managed as separate geographical divisions. This is reflected in the group’s management structure and in the segment information reviewed by the Chief Operating Decision Maker.

Dividends

Interim dividends are recorded in the group’s consolidated financial statements when paid. Final dividends are recorded in the group’s consolidated financial statements in the period in which they receive shareholder approval.

Non-underlying items

Non-underlying items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are items which are exceptional by their size and/or are non-trading in nature, including amortisation of acquired intangibles and other non-trading amounts, including those relating to acquisitions.

Significant accounting judgements, estimates and assumptions

The preparation of the group's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies, reported amounts of assets and liabilities, revenue and expenses and the accompanying disclosures, and the disclosure of contingent liabilities. The estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Actual results may also differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

In the process of applying the group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Construction contracts

The group's approach to key estimates and judgements relating to construction contracts is set out in the revenue recognition policy above. When revenue is recognised based on the output method, such as units of production, there is little judgement involved in accounting for construction contracts as the amount of revenue that has not been certified/accepted by the client is typically small and is usually based on volumes achieved at agreed rates. When revenue is recognised based on the input (cost) method, the main factors considered when making estimates and judgements include the cost of the work required to complete the contract in order to estimate the percentage completion, and the outcome of claims raised against the group by customers or third parties. The group performed around 7,000 contracts during 2019, at an average revenue of approximately £325,000 and a typical range of between £25,000 and £10m in value. The majority of contracts were completed in year and therefore there are no estimates involved in accounting for these. For contracts that are not complete at year end, the group estimates the costs to complete in order to measure progress and therefore how much revenue to recognise. The actual outcome of these contracts will differ from the estimate at 31 December and it is reasonably possible that outcomes on these contracts within the next year could be materially different in aggregate to those estimated. It is not possible to quantify the expected impact of this, however the estimated costs to complete are management's best estimate at this point in time and no individual estimate or judgement is expected to have a materially different outcome.

At last year end it was noted that most significant judgement in accounting for construction contracts related to revenue recognised on a large long-term public contract where the group was negotiating an adjustment due to scope increase. The amount had not yet been agreed with the customer and the timing of settlement was uncertain. The amount of revenue recognised was less than the amount expected to be recovered and represented an amount where management was confident it was highly probable that a significant reversal of revenue would not occur. The amount has been agreed with the customer during 2019 with no material difference to the revenue recognised.

Determining the lease term of contracts with renewal and termination options

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has several lease contracts that include extension and termination options. The group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or terminate.

The group includes the renewal period as part of the lease term for some of its leased land and buildings and plant, machinery and equipment, due to the significance of these assets to its operations. The renewal periods for leases of plant and machinery with longer non-cancellable periods (ie 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the group. Such changes are reflected in the assumptions when they occur.

Carrying value of goodwill
The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out above. Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available market data for transactions conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value-in-use calculation is based on a discounted cash flow (DCF) model. The group estimates the recoverable amount based on value-in-use calculations. The cash flows are derived from the budget and forecasts for the next three years. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash in-flows and the growth rates assumed within the calculation.

Leases – Estimating the incremental borrowing rate
The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing arrangements). The group estimates the IBR using observable market inputs. These include government bond rates for countries where an asset under lease is located and with reference to the term of the lease. Specific estimates are also made to the IBR which reflects the credit risk profile of the group.

Taxes
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. The group uses judgement in assessing the recoverability of deferred tax assets, for which the significant assumption is forecast taxable profits.

Provisions
The recognition of provisions for legal disputes is subject to a significant degree of estimation. A provision is made for loss contingencies when it is considered probable that an outflow will occur and the amount of the loss can be reliably estimated. In making its estimates, management takes into account the advice of internal and external legal counsel and actuaries. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings and settlement negotiations or if investigations bring to light new facts.

3 Segmental analysis

The group is managed as three geographical divisions and has only one major product or service: specialist geotechnical engineering services. This is reflected in the group's management structure and in the segment information reviewed by the Chief Operating Decision Maker.

	2019			2018[1]	
	Revenue £m	Operating profit IAS 17 basis £m	**Operating profit IFRS 16 basis £m**	Revenue £m	Operating profit IAS 17 basis £m
North America	**1,333.9**	77.3	**78.6**	1,161.4	78.6
Europe, Middle East and Africa	**679.6**	28.1	**28.4**	668.2	39.7
Asia-Pacific	**287.0**	2.8	**3.3**	394.9	(18.0)
	2,300.5	108.2	**110.3**	2,224.5	100.3
Central items	–	(6.4)	**(6.5)**	–	(3.7)
Underlying	**2,300.5**	101.8	**103.8**	2,224.5	96.6
Non-underlying items (note 8)	–	(29.7)	**(29.7)**	–	(71.6)
	2,300.5	72.1	**74.1**	2,224.5	25.0

	2019					
	Segment assets £m	**Segment liabilities £m**	**Capital employed £m**	**Capital additions £m**	**Depreciation[3] and amortisation £m**	**Tangible and[4] intangible assets £m**
North America	**766.5**	**(262.9)**	**503.6**	**25.5**	**46.6**	**324.5**
Europe, Middle East and Africa	**382.8**	**(214.4)**	**168.4**	**27.3**	**32.1**	**185.4**
Asia-Pacific	**166.1**	**(83.0)**	**83.1**	**10.1**	**15.5**	**74.3**
	1,315.4	**(560.3)**	**755.1**	**62.9**	**94.2**	**584.2**
Central items[2]	**109.7**	**(467.3)**	**(357.6)**	**–**	**0.4**	**1.1**
	1,425.1	**(1,027.6)**	**397.5**	**62.9**	**94.6**	**585.3**

	2018[1]					
	Segment assets £m	Segment[5] liabilities £m	Capital[5] employed £m	Capital additions £m	Depreciation[3] and amortisation £m	Tangible and[4] intangible assets £m
North America	692.8	(215.4)	477.4	25.8	29.1	312.6
Europe, Middle East and Africa	388.0	(229.6)	158.4	37.6	25.3	176.7
Asia-Pacific	211.2	(88.6)	122.6	22.2	16.5	85.7
	1,292.0	(533.6)	758.4	85.6	70.9	575.0
Central items[2]	152.8	(484.7)	(331.9)	–	–	0.4
	1,444.8	(1,018.3)	426.5	85.6	70.9	575.4

The group has initially applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for lease contracts that were previously classified as operating leases. As a result, the group recognised £87.3m of right-of-use assets and £88.1m of lease liabilities from those contracts as at 1 January 2019. Depreciation in respect of the right-of-use assets in the year ended 31 December 2019 was £25.6m. These balances are included in the North America, Europe, Middle East and Africa and Asia-Pacific segments as at 31 December 2019.

Revenue analysed by country:

	2019 £m	2018 £m
United States	**1,224.2**	1,068.0
Australia	**160.1**	255.5
Germany	**128.7**	113.3
Canada	**109.7**	93.4
United Kingdom	**66.5**	65.4
Other	**611.3**	628.9
	2,300.5	2,224.5

[1] The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated.

[2] Central items include net debt and tax balances, which are managed at group.

[3] Depreciation and amortisation excludes amortisation of acquired intangible assets.

[4] Tangible and intangible assets comprise goodwill, intangible assets and property plant and equipment.

[5] Central liabilities and capital employed presented in the note do not agree to the published 2018 consolidate financial statements as a result of re-presenting the comparative balance sheet as outlined in note 33 to the financial statements.

4 Revenue

The group's revenue is derived from contracts with customers. In the following table, revenue is disaggregated by primary geographical market, being the group's operating segments (see note 3) and timing of revenue recognition:

	Year ended 31 December 2019			Year ended 31 December 2018		
	Revenue recognised on performance obligations satisfied over time £m	**Revenue recognised on performance obligations satisfied at a point in time £m**	**Total revenue £m**	Revenue recognised on performance obligations satisfied over time £m	Revenue recognised on performance obligations satisfied at a point in time £m	Total revenue £m
North America	**1,200.1**	**133.8**	**1,333.9**	1,061.1	100.3	1,161.4
Europe, Middle East and Africa	**679.6**	**–**	**679.6**	668.2	–	668.2
Asia-Pacific	**287.0**	**–**	**287.0**	394.9	–	394.9
	2,166.7	**133.8**	**2,300.5**	2,124.2	100.3	2,224.5

The final contract value will not always have been agreed at the year end. The contract value, and therefore revenue allocated to a performance obligation, may change subsequent to the year end as variations and claims are agreed with the customer. The amount of revenue recognised in 2019 from performance obligations satisfied in previous periods is £6.6m (2018: £10.7m).

The group's order book comprises the unexecuted elements of orders on contracts that have been awarded. Where a contract is subject to variations, only secured variations are included in the reported order book. As at 31 December 2019 the total order book is £1,042.6m (2018: £958.1m).

The order book for contracts with a total duration over one year is £219.3m (2018: £185.4m). Revenue on these contracts is expected to be recognised as follows:

	2019 £m	2018 £m
Less than one year	**159.8**	143.2
One to two years	**41.7**	42.2
More than two years	**17.8**	–
	219.3	185.4

The following table provides information about receivables, contract assets and contract liabilities arising from contracts with customers:

	2019 £m	2018 £m
Trade receivables	**483.9**	451.7
Contract assets	**102.1**	106.3
Contract liabilities	**(42.0)**	(41.4)

Retentions are recognised on invoicing of the associated trade receivable. Included in the trade receivables balance is £112.5m (2018: £106.7m) in respect of these retentions. Of this amount, £80.1m (2018: £75.5m) are anticipated to be invoiced in one year with the remaining balance of £32.4m (2018: £31.2m) anticipated to be invoiced in more than one year. All contract assets and liabilities are current.

Substantially all of the opening balance of contract assets has been billed during 2019 and revenue has been recognised against substantially all of the opening contract liability.

5 Acquisitions

2019 acquisitions

There were no material acquisitions by the group during 2019. Acquisition related costs in the year were £0.6m.

2018 acquisitions

On 29 March 2018, the group acquired 100% of the issued share capital of Moretrench America Corporation, a geotechnical contracting company operating predominantly along the East Coast of the US, for cash consideration of £64.7m. The fair value of the intangible assets acquired represented the fair value of customer contracts at the date of acquisition, customer relationships and the trade name. Goodwill arising on acquisitions was attributable to the knowledge and expertise of the assembled workforce, the expectation of future contracts and customer relationships and the operating synergies that arise from the group's strengthened market position. All of the goodwill and intangible assets are expected to be deductible for tax purposes.

	Moretrench		
	Carrying amount £m	Fair value adjustment £m	Fair value £m
Net assets acquired			
Intangible assets	–	9.7	9.7
Property, plant and equipment	22.2	5.0	27.2
Cash and cash equivalents	8.8	–	8.8
Receivables	30.9	–	30.9
Other assets	11.0	–	11.0
Loans and borrowings	(9.1)	–	(9.1)
Deferred tax	0.3	–	0.3
Other liabilities	(23.1)	–	(23.1)
	41.0	14.7	55.7
Goodwill			9.0
Total consideration			64.7
Satisfied by			
Initial cash consideration			67.7
Amount receivable from escrow			(3.0)
			64.7

During 2019 £2.7m was received from escrow. On 13 June 2018, the group acquired 100% of the issued share capital of Sivenmark Maskintjanst AB, a sheet piling specialist based in Sweden, for cash consideration of £2.1m. The purchase price was a premium of £0.8m to the fair value of the net assets acquired.

For both acquisitions the fair value of the total trade receivables was not materially different from the gross contractual amounts receivable and is expected to be recovered in full. In the period to 31 December 2018, the acquisitions contributed £96.3m to revenue and a net profit of £5.5m. Had the acquisitions taken place on 1 January 2018, total group revenue would have been £2,257.3m and underlying profit for the period would have been £58.9m.

6 Operating costs

		2019			2018
	Note	IAS 17 basis[1] £m	IFRS 16 impact[1] £m	**Statutory basis £m**	IAS 17 basis[1] £m
Raw materials and consumables		699.0	–	**699.0**	665.3
Staff costs	7	598.2	–	**598.2**	570.8
Other operating charges		657.6	0.1	**657.7**	642.6
Amortisation of intangible assets	14	0.6	–	**0.6**	1.2
Operating lease and short-term rental expense[1]:					
Land and buildings		17.3	(13.3)	**4.0**	14.1
Plant, machinery and vehicles		158.3	(14.4)	**143.9**	165.8
Depreciation:					
Right-of-use assets		–	25.6	**25.6**	–
Owned property, plant and equipment	15a	68.0	–	**68.0**	69.1
Property, plant and equipment held under finance leases[1]	15b	0.4	–	**0.4**	0.6
Underlying operating costs		2,199.4	(2.0)	**2,197.4**	2,129.5
Non-underlying items	8	28.7	–	**28.7**	64.2
		2,228.1	(2.0)	**2,226.1**	2,193.7
Other operating charges include:					
Redundancy and other reorganisation costs		1.9	–	**1.9**	1.8
Fees payable to the company's auditor for the audit of the company's Annual Report and Accounts		0.5	–	**0.5**	0.3
Fees payable to the company's auditor for other services:					
The audit of the company's subsidiaries, pursuant to legislation		1.5	–	**1.5**	1.4
Other assurance services		0.1	–	**0.1**	–

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.

7 Employees
The aggregate staff costs of the group were:

	2019 £m	2018 £m
Wages and salaries	**518.1**	493.2
Social security costs	**66.2**	61.7
Other pension costs	**13.1**	14.5
Share-based payments	**0.8**	1.4
	598.2	570.8

These costs include Directors' remuneration. Fees payable to Non-executive Directors totalled £0.5m (2018: £0.4m).

The average number of staff, including Directors, employed by the group during the year was:

	2019 Number	2018 Number
North America	**4,424**	4,134
Europe, Middle East and Africa	**4,535**	4,451
Asia-Pacific	**1,533**	1,969
	10,492	10,554

8 Non-underlying items
Non-underlying items include items which are exceptional by their size and/or are non-trading in nature and comprise the following:

	2019 £m	2018 £m
Goodwill impairment	**20.2**	30.1
Impairment of intangible assets	–	1.2
Exceptional restructuring costs	**7.2**	30.1
Contingent consideration: additional amounts provided	–	0.4
Acquisition costs	**1.3**	1.1
Guaranteed Minimum Pension equalisation	–	1.3
Non-underlying items in operating costs	**28.7**	64.2
Amortisation of acquired intangible assets	**4.3**	7.9
Exceptional contract dispute	**(3.3)**	–
Contingent consideration: provision released	–	(0.5)
Non-underlying items in other operating income	**(3.3)**	(0.5)
Total non-underlying items in operating profit	**29.7**	71.6
Non-underlying finance costs	–	0.5
Total non-underlying items before taxation	**29.7**	72.1

The goodwill impairment relates to Canada, due to a downward revision to the medium-term forecast, forward projections did not fully support the carrying value of the goodwill.

In the second half of 2018 the group announced a group-wide restructuring programme that affected the ASEAN and Waterway business units in Asia-Pacific and the Brazil and Franki Africa business units in Europe, Middle East and Africa resulting in a full year restructuring charge of £30.1m, relating to asset write-downs, redundancy costs and other reorganisational charges as well as £30.1m impairment of goodwill and £1.2m impairment of other intangibles assets.

Restructuring costs charged during 2019 are in respect of a second phase of restructuring launched in the year in both Waterway, resulting in the business running down to eventual closure, and in Franki Africa. A restructuring charge of £7.7m was recorded in Waterway. This was offset by a restructuring provision release in ASEAN in the year, resulting in a net restructuring charge in the Asia-Pacific Division of £4.8m. A further restructuring charge of £2.4m has been recorded in Franki Africa relating to redundancy costs and other reorganisational changes.

Acquisition costs in the year relate to professional fees associated with the wind-up of an employee share ownership plan at Moretrench, following acquisition in March 2018. The previous year's acquisition costs relate to the Moretrench acquisition.

In 2018 a cost was recognised in relation to the Guaranteed Minimum Pension equalisation requirement, in respect of the UK defined benefit pension scheme. Further details are set out in note 31.

Amortisation of acquired intangible assets primarily relate to the Moretrench, Austral and Sivenmark acquisitions. The prior period charge also included amortisation in relation to Keller Canada, Bencor and Franki Africa acquired intangibles which were fully amortised or impaired at 31 December 2018.
During the year £3.3m of proceeds were received on final settlement of a contributory claim relating to an exceptional contract dispute, first reported in 2014.

9 Finance income

	2019 £m	2018 £m
Bank and other interest receivable	**0.6**	0.6
Other finance income	**0.2**	–
	0.8	0.6

10 Finance costs

	2019 £m	2018 £m
Interest payable on bank loans and overdrafts	**11.1**	8.9
Interest payable on other loans	**3.8**	4.2
Net pension interest cost	**0.5**	0.5
Other finance costs	**3.6**	3.0
Interest payable on finance leases	**–**	0.1
Underlying finance costs (IAS 17 basis)	**19.0**	16.7
Interest on lease liabilities	**4.3**	–
Underlying finance costs (IFRS 16 basis)	**23.3**	16.7
Non-underlying finance costs (note 8)	**–**	0.5
	23.3	17.2

11 Taxation

	2019 £m	2018 £m
Current tax expense		
Current year	**25.6**	24.1
Prior years	**(0.9)**	(4.5)
Total current tax	**24.7**	19.6
Deferred tax expense		
Current year	**7.4**	3.5
Prior years	**(2.2)**	(0.9)
Total deferred tax	**5.2**	2.6
	29.9	22.2

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.
The effective tax rate can be reconciled to the UK corporation tax rate of 19% (2018: 19%) as follows:

	2019			2018		
	Underlying £m	**Non-underlying items (note 8) £m**	**Statutory £m**	Underlying £m	Non-underlying items (note 8) £m	Statutory £m
Profit before tax	**81.3**	**(29.7)**	**51.6**	80.5	(72.1)	8.4
UK corporation tax charge/(credit) at 19% (2018: 19%)	**15.4**	**(5.6)**	**9.8**	15.3	(13.7)	1.6
Tax charged at rates other than 19% (2018: 19%)	**1.4**	**(1.8)**	**(0.4)**	4.2	(0.6)	3.6
Tax losses and other deductible temporary differences not recognised	**8.5**	**14.7**	**23.2**	5.0	12.4	17.4
Utilisation of tax losses and other deductible temporary differences previously unrecognised	**(2.4)**	**–**	**(2.4)**	(1.2)	–	(1.2)
Permanent differences	**1.3**	**0.2**	**1.5**	4.6	1.6	6.2
Adjustments to tax charge in respect of previous periods	**(3.1)**	**–**	**(3.1)**	(5.4)	–	(5.4)
Other	**1.3**	**–**	**1.3**	–	–	–
Tax charge/(credit)	**22.4**	**7.5**	**29.9**	22.5	(0.3)	22.2
Effective tax rate	**27.6%**	**(25.3)%**	**57.9%**	28.0%	0.4%	264.3%

As a consequence of the restructuring of the Australian business, the group has reviewed the recoverability of the deferred tax assets previously recognised for Australian tax losses and other temporary deductible differences. On account of the additional risk of non-recovery, the tax charge on non-underlying items includes a valuation allowance of £8.5m made against the full value of the assets previously recognised.

The group is subject to taxation in over forty countries worldwide and the risk of changes in tax legislation and interpretation from tax authorities in the jurisdictions in which it operates. The assessment of uncertain positions is subjective and subject to management's best judgement. Where tax positions are uncertain, provision is made where necessary based on interpretation of legislation, management experience and appropriate professional advice. We do not expect the outcome of these estimates to be materially different from the position taken.

The financing of group companies includes some activities which are subject to exemptions under the UK's Controlled Foreign Company regime. On 2 April 2019, the European Commission announced that the UK's exemption rules are only partially justified and the UK tax authorities are required to recover tax which may constitute State Aid. The group is monitoring developments and has made an application to the EU General Court to overturn the ruling. No provision has been made for any additional tax that might become payable due to the significant uncertainty involved in quantifying any amounts that might eventually be payable. The cumulative benefits recognised from the Controlled Foreign Company finance exemption are approximately £4.0m.

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting periods:

	Unused tax losses £m	Accelerated capital allowances £m	Retirement benefit obligations £m	Other employee related liabilities £m	Bad debts £m	Other temporary differences £m	**Total £m**
At 1 January 2018	(27.8)	37.2	(3.1)	(10.4)	(2.6)	12.9	**6.2**
Charge/(credit) to the income statement	2.0	1.4	(0.2)	2.6	(1.3)	(1.9)	**2.6**
Charge to other comprehensive income	–	–	0.1	–	–	–	**0.1**
Acquired with subsidiary	–	–	–	(0.1)	(0.2)	–	**(0.3)**
Exchange differences	0.5	1.8	–	(0.3)	(0.2)	0.6	**2.4**
Other reallocations/transfers	6.8	–	–	–	–	(6.8)	–
At 31 December 2018 and 1 January 2019	(18.5)	40.4	(3.2)	(8.2)	(4.3)	4.8	**11.0**
Reclassify 2018 current tax assets	–	–	–	–	–	(1.4)	**(1.4)**
At 31 December 2018 and 1 January 2019 restated	(18.5)	40.4	(3.2)	(8.2)	(4.3)	3.4	**9.6**
Charge/(credit) to the income statement	3.5	(2.7)	0.3	0.4	(0.6)	4.3	**5.2**
Credit to other comprehensive income	–	–	(0.6)	–	–	–	**(0.6)**
Exchange differences	0.4	(1.6)	0.1	0.3	0.2	(0.8)	**(1.4)**
Other reallocations/transfers	–	(0.3)	0.8	1.6	–	(2.1)	–
At 31 December 2019	**(14.6)**	**35.8**	**(2.6)**	**(5.9)**	**(4.7)**	**4.8**	**12.8**

Deferred tax assets include amounts of £13.3m (2018: £24.3m) where recovery is based on forecasts of future taxable profits that are expected to be available to offset the reversal of the associated temporary differences. The deferred tax assets arise predominantly in Canada (£5.7m), UK (£2.9m), France (£1.9m) and Australia (£1.9m). Canadian tax rules currently allow tax losses to be carried forward up to twenty years, and UK, French and Australian tax rules currently allow tax losses to be carried forward indefinitely. We have assessed the recovery of deferred tax assets by reviewing the likely timing and level of future taxable profits.

The following is the analysis of the deferred tax balances:

	2019 £m	2018 £m
Deferred tax liabilities	**26.1**	37.9
Deferred tax assets	**(13.3)**	(26.9)
	12.8	11.0

At the balance sheet date, the group had unused tax losses of £142.3m (2018: £115.2m), mainly arising in Canada, Australia, Malaysia and the UK, available for offset against future profits, on which no deferred tax asset has been recognised. Of these losses, £78.2m (2018: £53.5m) may be carried forward indefinitely.

At the balance sheet date the aggregate of other deductible temporary differences for which no deferred tax asset has been recognised was £29.7m (2018: £2.3m).

At the balance sheet date the aggregate of temporary differences associated with investments in subsidiaries, branches and joint ventures for which no deferred tax liability has been recognised is £58.4m (2018: £54.5m). The unprovided deferred tax liability in respect of these timing differences is £2.0m (2018: £2.0m).

12 Dividends payable to equity holders of the parent
Ordinary dividends on equity shares:

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 23.9p (2017: 24.5p) per share	**17.2**	17.6
Interim dividend for the year ended 31 December 2019 of 12.6p (2018: 12.0p) per share	**9.1**	8.7
	26.3	26.3

The Board has recommended a final dividend for the year ended 31 December 2019 of £19.7m, representing 27.4p (2018: 23.9p) per share. The proposed dividend is subject to approval by shareholders at the AGM on 21 May 2020 and has not been included as a liability in these financial statements.

13 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

When the group makes a profit, diluted earnings per share equals the profit attributable to equity holders of the parent divided by the weighted average diluted number of shares. When the group makes a loss, diluted earnings per share equals the loss attributable to the equity holders of the parent divided by the basic average number of shares. This ensures that earnings per share on losses is shown in full and not diluted by unexercised share awards.

Basic and diluted earnings per share are calculated as follows:

	Underlying earnings attributable to the equity holders of the parent			Earnings attributable to equity holders of the parent	
	2019 IAS 17 basis	**2019 IFRS 16 basis**	2018 IAS 17 basis	**2019 IFRS 16 basis**	2018 IAS 17 basis
Basic and diluted earnings (£m)	60.2	**58.6**	57.0	**21.4**	(14.8)
Weighted average number of ordinary shares (m)[1]					
Basic number of ordinary shares outstanding	72.1	**72.1**	72.0	**72.1**	72.0
Effect of dilution from:					
Share options and awards	–	–	0.1	–	0.1
Diluted number of ordinary shares outstanding	72.1	**72.1**	72.1	**72.1**	72.1
Earnings per share					
Basic earnings/(loss) per share (p)	83.5	**81.3**	79.2	**29.7**	(20.6)
Diluted earnings/(loss) per share (p)	83.5	**81.3**	79.1	**29.7**	(20.6)

[1]The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year.

14 Goodwill and intangible assets

	Goodwill £m	Arising on acquisition £m	Other £m	**Total £m**
Cost				
At 1 January 2018	222.5	50.9	22.4	**295.8**
Additions	–	–	0.5	**0.5**
Acquired with subsidiaries	9.8	10.4	–	**20.2**
Exchange differences	2.7	(1.2)	0.9	**2.4**
At 31 December 2018 and 1 January 2019	235.0	60.1	23.8	**318.9**
Additions	–	–	0.7	**0.7**
Exchange differences	(6.4)	(1.1)	(1.1)	**(8.6)**
At 31 December 2019	**228.6**	**59.0**	**23.4**	**311.0**
Accumulated amortisation and impairment				
At 1 January 2018	63.5	40.8	20.6	**124.9**
Impairment charge for the year	30.1	1.2	–	**31.3**
Amortisation charge for the year	–	7.9	1.2	**9.1**
Exchange differences	0.5	(1.1)	0.8	**0.2**
At 31 December 2018 and 1 January 2019	94.1	48.8	22.6	**165.5**
Impairment charge for the year	20.2	–	–	**20.2**
Amortisation charge for the year	–	4.3	0.6	**4.9**
Exchange differences	(2.5)	(0.7)	(1.1)	**(4.3)**
At 31 December 2019	**111.8**	**52.4**	**22.1**	**186.3**
Carrying amount				
At 1 January 2018	159.0	10.1	1.8	**170.9**
At 31 December 2018 and 1 January 2019	140.9	11.3	1.2	**153.4**
At 31 December 2019	**116.8**	**6.6**	**1.3**	**124.7**

Intangible assets arising on acquisition represent customer relationships, customer contracts at the date of acquisition, patents and trade names. Other intangibles represents internally developed software.

In 2019, for impairment testing purposes goodwill has been allocated to nine separate CGUs. The carrying amount of goodwill allocated to the five CGUs with the largest goodwill balances is significant in comparison to the total carrying amount of goodwill and comprises 94% of the total. The relevant CGUs and the carrying amount of the goodwill allocated to each are as set out below, together with the pre-tax discount rate and medium-term growth rate used in their value-in-use calculations:

		2019			2018		
Cash-generating unit	Geographical segment	**Carrying value £m**	**Pre-tax discount rate %**	**Forecast growth rate %**	Carrying value £m	Pre-tax discount rate %	Forecast growth rate %
Keller US	North America	**44.7**	**13.6**	**2.0**	47.9	11.4	2.0
Suncoast	North America	**32.3**	**13.7**	**2.0**	33.9	10.8	2.0
Keller Canada	North America	**13.0**	**14.6**	**2.0**	32.6	11.4	2.0
Keller Limited	Europe, Middle East and Africa	**12.1**	**12.2**	**3.0**	12.1	9.9	2.0
Austral	Asia-Pacific	**7.2**	**13.1**	**3.0**	7.5	12.8	2.0
Other	Various	**7.5**	**various**	**various**	6.9	various	various
		116.8			140.9		

Keller US is presented as a new CGU, reflecting the combination of the previously individual CGUs that now comprise ‘Keller’ following the North American reorganisation. As the business is now operated as one unit from 1 January 2020, all projections are based on the combined businesses As a consequence of this reorganisation, the goodwill from the previously defined CGUs has been combined.

The recoverable amount of the goodwill allocated to each CGU has been calculated on a value-in-use basis. The calculations all use cash flow projections based on financial budgets and forecasts approved by management and cover a three year period.

The group’s businesses operate in cyclical markets, some of which are expected to continue to face uncertain conditions in future years. The most important factors in the value-in-use calculations are the forecast revenues and operating margins during the forecast period and the discount rates applied to future cash flows. The key assumptions underlying the cash flow forecasts are revenue and operating margins assumed throughout the forecast period. The discount rates used in the value-in-use calculations are based on the weighted average cost of capital of companies comparable to the relevant CGUs, adjusted as necessary to reflect the risk associated with the asset being tested.

Management considers all the forecast revenues, margins and profits to be reasonably achievable given recent performance and the historic trading results of the relevant CGUs. Cash flows beyond 2022 have been extrapolated using the forecast growth rates above and do not exceed the long-term average growth rates for the markets in which the relevant CGUs operate.

The goodwill in the Keller Canada CGU was impaired during 2019 by £20.2m. For the remaining CGUs management believes that any reasonably possible change in the key assumptions on which the recoverable amounts of the CGUs are based would not cause any of their carrying amounts to exceed their recoverable amounts. A number of sensitivities were run on the projections to identify the changes required in the key assumptions that would give rise to an impairment. These are:

Cash-generating unit	Geographical segment	**Increase in discount rate %**	**Reduction in future growth rate %**	**Reduction in final year cash flow %**
Keller US	North America	**19.7**	**28.7**	**80.9**
Suncoast	North America	**72.6**	**198.7**	**105.3**
Keller Limited	Europe, Middle East and Africa	**2.5**	**2.2**	**13.8**
Austral	Asia-Pacific	**4.1**	**4.1**	**32.0**

15 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	Note	2019 £m	2018 £m
Property, plant and equipment – owned	15a	**386.6**	422.0
Right-of-use assets – leased[1]	15b	**74.0**	–
At 31 December 2019		**460.6**	422.0

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated.

15 a) Property, plant and equipment - owned assets

	Land and buildings £m	Plant, machinery and vehicles £m	Capital work in progress £m	**Total £m**
Cost				
At 1 January 2018	58.2	857.9	9.5	**925.6**
Additions	3.5	78.0	3.6	**85.1**
Disposals	(2.6)	(24.3)	(0.1)	**(27.0)**
Transfers to held for sale	–	(30.7)	–	**(30.7)**
Acquired with subsidiaries	10.6	17.6	–	**28.2**
Reclassification	–	3.2	(3.2)	–
Exchange differences	2.0	18.0	–	**20.0**
At 31 December 2018 and 1 January 2019	71.7	919.7	9.8	**1,001.2**
Additions	3.1	56.9	2.2	**62.2**
Disposals	(0.7)	(58.0)	–	**(58.7)**
Reclassification	–	2.1	(2.1)	–
Exchange differences	(3.4)	(38.4)	(0.3)	**(42.1)**
At 31 December 2019	**70.7**	**882.3**	**9.6**	**962.6**
Accumulated depreciation				
At 1 January 2018	17.5	508.9	–	**526.4**
Charge for the year	2.7	67.0	–	**69.7**
Disposals	(0.4)	(19.8)	–	**(20.2)**
Transfers to held for sale	–	(25.5)	–	**(25.5)**
Impairments	–	16.2	–	**16.2**
Exchange differences	0.6	12.0	–	**12.6**
At 31 December 2018 and 1 January 2019	20.4	558.8	–	**579.2**
Charge for the year	1.9	66.5	–	**68.4**
Disposals	(0.6)	(45.0)	–	**(45.6)**
Exchange differences	(0.8)	(25.2)	–	**(26.0)**
At 31 December 2019	**20.9**	**555.1**	–	**576.0**
Carrying amount				
At January 2018	40.7	349.0	9.5	**399.2**
At 31 December 2018 and 1 January 2019	51.3	360.9	9.8	**422.0**
At 31 December 2019	**49.8**	**327.2**	**9.6**	**386.6**

The group had contractual commitments for the acquisition of property, plant and equipment of £5.0m (2018: £1.9m) at the balance sheet date. These amounts were not included in the balance sheet at the year end. The carrying amount of plant, machinery and vehicles held under finance leases was £1.7m (2018: £2.1m).

15 b) Right-of-use assets – leased assets

The group has lease contracts for various items of land and buildings, plant, machinery and vehicles used in its operations. Leases of land and buildings generally have lease terms between five and fifteen years, while plant, machinery and vehicles generally have lease terms between three and eight years. The group's obligations under its leases are secured by the lessor's title to the lease assets. Generally, the group is restricted from assigning and subleasing its leased assets. There are several lease contracts that include extension and termination options.

The group has certain leases of machinery with lease terms of twelve months or less and leases of office equipment with low value. The group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the year:

	Land and buildings £m	Plant, machinery and vehicles £m	**Total £m**
At 1 January 2019	63.1	24.2	**87.3**
Additions	6.1	16.8	**22.9**
Depreciation expense	(13.7)	(11.9)	**(25.6)**
Disposals and contract modifications	(5.8)	(1.3)	**(7.1)**
Foreign exchange movements	(2.3)	(1.2)	**(3.5)**
At 31 December 2019	47.4	26.6	**74.0**

16 Investments in joint ventures

	£m
At 1 January 2019	**4.6**
Share of post-tax results	**0.7**
Dividends received	**(1.1)**
Exchange differences	**(0.4)**
At 31 December 2019	**3.8**

	£m
At 1 January 2018	3.7
Share of post-tax results	1.6
Dividends received	(0.9)
Exchange differences	0.2
At 31 December 2018	4.6

The group's investment in joint ventures relates to a 50% interest in KFS Finland Oy, an entity incorporated in Finland.

Aggregate amounts relating to joint ventures:

	2019 £m	2018 £m
Revenue	**16.7**	18.1
Operating costs	**(15.9)**	(15.9)
Operating profit	**0.8**	2.2
Finance costs	–	(0.1)
Profit before taxation	**0.8**	2.1
Taxation	**(0.1)**	(0.5)
Share of post-tax results	**0.7**	1.6

	2019 £m	2018 £m
Non-current assets	**4.2**	4.3
Current assets	**4.1**	2.6
Current liabilities	**(2.9)**	(2.0)
Non-current liabilities	**(1.6)**	(0.3)
Share of net assets	**3.8**	4.6

17 Other non-current assets

	2019 £m	2018 £m
Fair value of derivative financial instruments	**3.4**	0.4
Other assets	**18.9**	21.1
	22.3	21.5

Other assets includes £17.1m (2018: £17.6m) of assets held at fair value in connection with a non-qualifying deferred compensation plan (NQ) available to US employees, whereby an element of senior management bonuses are deferred over a period of four years. Participants select deemed investment funds which are substantially offset by mutual funds held on trust by the company. During the year proceeds from the sale of other non-current assets were £4.6m (2018: £3.5m); this includes £3.2m from the sale of NQ related investments.

18 Inventories

	2019 £m	2018 £m
Raw materials and consumables	**53.0**	57.3
Work in progress	**0.7**	0.8
Finished goods	**16.9**	22.2
	70.6	80.3

During 2019, £2.1m, (2018: £1.2m) of inventory write-downs were recognised as an expense.

19 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**483.9**	451.7
Contract assets	**102.1**	106.3
Other receivables	**26.6**	29.3
Prepayments	**14.1**	18.4
Assets held for sale	**–**	5.2
	626.7	610.9

Trade receivables are shown net of an allowance for expected credit losses.

The movement in the provision for bad and doubtful debts (including expected credit losses) is as follows:

	2019 £m	2018 £m
At 1 January	**44.5**	35.6
Used during the year	**(8.6)**	(8.2)
Additional provisions	**17.4**	23.2
Unused amounts reversed	**(13.3)**	(7.8)
Acquired with subsidiary	**–**	0.6
Exchange differences	**(1.9)**	1.1
At 31 December	**38.1**	44.5

Set out below is information about the credit risk exposure on the group's trade receivables, detailing past due but not impaired:

	2019 £m	2018 £m
Overdue by less than 30 days	**91.7**	84.5
Overdue by between 31 and 90 days	**45.2**	39.9
Overdue by more than 90 days	**43.7**	46.1
	180.6	170.5

20 Cash and cash equivalents

	2019 £m	2018 £m
Bank balances	**95.0**	106.4
Short-term deposits	**3.9**	4.1
Cash and cash equivalents in the balance sheet	**98.9**	110.5
Bank overdrafts	**(11.4)**	(6.8)
Cash and cash equivalents in the cash flow statement	**87.5**	103.7

21 Trade and other payables

	2019 £m	2018[1] £m
Trade payables	**291.5**	262.8
Other taxes and social security payable	**15.8**	12.6
Other payables	**92.6**	106.4
Contract liabilities	**42.0**	41.4
Accruals	**44.9**	42.5
Fair value of derivative financial instruments	–	0.1
	486.8	465.8

[1]Other payables presented in the note do not agree to the published 2018 consolidated financial statements as a result of re-presenting the comparative balance sheet in respect of the reclassification insurance provisions as outlined in note 33 to the financial statements.

Other payables include contract related payables of £39.7m (2018: £45.5m).

22 Provisions

	Employee provisions £m	Restructuring provisions £m	Contract provisions £m	Other provisions £m	**Total £m**
At 31 December 2018[1]	12.4	4.2	18.8	17.4	**52.8**
Charge for the year	5.0	2.2	3.9	8.4	**19.5**
Used during the year	(3.2)	(1.6)	(1.4)	(1.7)	**(7.9)**
Unused amounts reversed	(1.4)	(1.3)	(2.8)	(0.2)	**(5.7)**
Unwinding of discount and changes in discount rate	–	–	0.1	–	**0.1**
Exchange differences	(0.7)	(0.1)	–	(0.3)	**(1.1)**
At 31 December 2019	12.1	3.4	18.6	23.6	**57.7**
To be settled within one year	2.7	3.4	0.2	11.4	**17.7**
To be settled after one year	9.4	–	18.4	12.2	**40.0**
At 31 December 2019	12.1	3.4	18.6	23.6	**57.7**

[1]Provisions presented in the note do not agree to the published 2018 consolidated financial statements as a result of re-presenting the comparative balance sheet in respect of contract liabilities in the group's captive arrangement and the reclassification of insurance provisions as outlined in note 33 to the financial statements.

Employee provisions
Employee provisions include long service obligations to employees and a workers' compensation scheme in North America.

Restructuring provisions
Restructuring provisions include redundancy costs and other reorganisation charges in markets experiencing significantly depressed trading conditions as detailed further in note 8.

Contract provisions
Contract provisions reflect contractual claims against the group that are retained within the group's captive insurer. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Other provisions
Other provisions are in respect of legal, dilapidation and other disputes.

23 Other non-current liabilities

	2019 £m	2018 £m
Fair value of derivative financial instruments	–	0.3
Other liabilities	**19.5**	18.3
	19.5	18.6

Other liabilities include contingent consideration of £2.4m (2018: £2.4m) and £16.4m (2018: £15.9m) payable to US employees under a non-qualifying deferred compensation plan whereby an element of senior management bonuses are deferred over a period of four years. Participants select deemed investment funds which are substantially offset by mutual funds held on trust by the company.

24 Financial instruments

Exposure to credit, interest rate and currency risks arise in the normal course of the group's business and have been identified as risks for the group. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange and interest rates.

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

Currency risk

The group faces currency risk principally on its net assets, most of which are in currencies other than sterling. The group aims to reduce the impact that retranslation of these net assets might have on the consolidated balance sheet, by matching the currency of its borrowings, where possible, with the currency of its assets. The majority of the group's borrowings are held in sterling, US dollars, Canadian dollars, euros, Australian dollars, Singapore dollars, Emirati dirham and South African rand.

The group manages its currency flows to minimise transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the group relate to repatriation of profits, intra-group loan repayments and any foreign currency cash flows associated with acquisitions. The group's treasury risk management is performed at the group's head office.

As at 31 December 2019, the fair value of foreign exchange forward contracts outstanding was nil (2018: £0.1m) and included in current liabilities.

Interest rate risk

Interest rate risk is managed by a mix of fixed and floating rate borrowings dependent upon the purpose and term of the financing.

As at 31 December 2019, approximately 97% of the group's third-party borrowings were at floating interest rates.

Hedging currency risk and interest rate risk

The group hedges currency risk and interest rate risk. Where hedging instruments are used to hedge significant individual transactions, the group ensures that the critical terms, including dates, currencies, nominal amounts, interest rates and lengths of interest periods are matched. The group uses both qualitative and quantitative methods to confirm this and to assess the effectiveness of the hedge.

For currency hedging, the main source of hedge ineffectiveness is the relative movement of the forward points of the different currencies.

For interest rate hedging, the main sources of hedge ineffectiveness include changes in the LIBOR rate and the movement in discount factors.

Credit risk

The group's principal financial assets are trade and other receivables, bank and cash balances and a limited number of investments and derivatives held to hedge certain group exposures. These represent the group's maximum exposure to credit risk in relation to financial assets.

The group has procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution by reference to their credit rating and by regular review of these ratings.

Customer credit risk is mitigated by the group's relatively small average contract size, its diversity, both geographically and in terms of end markets. No individual customer represented more than 2% of revenue in 2019. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution by reference to their credit rating and by regular review of these ratings. The ageing of trade receivables that were past due but not impaired is shown in note 19.

The group evaluates each new customer and assesses their creditworthiness before any contract is undertaken.

The group reviews customer receivables on an ageing basis and provides against expected unrecoverable amounts. Experience has shown the level of historical provision required to be relatively low. Credit loss provisioning reflects past experience, economic factors and specific conditions.

The group's estimated exposure to credit risk for trade receivables and contract assets is disclosed in note 19. This amount is the accumulation of several years of provisions for known or expected credit losses.

Consideration of future events is generally taken into account when deciding when and how much to provide for of the group's trade receivables and contract assets. The group's bad debts typically arise due to invoices being unpaid for commercial reasons rather than credit default. The percentage of receivables on which credit losses are incurred, or expected to be incurred, is immaterial.

Liquidity risk and capital management
The group's capital structure is kept under constant review, taking account of the need for availability and cost of various sources of funding. The capital structure of the group consists of net debt and equity as shown in the consolidated balance sheet. The group maintains a balance between certainty of funding and a flexible, cost-effective financing structure with all main borrowings being from committed facilities. The group's policy continues to be to ensure that its capital structure is appropriate to support this balance and the group's operations.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group's debt and committed facilities mainly comprise a $50m private placement repayable in 2021, a $75m private placement repayable in 2024, and a £375m syndicated revolving credit facility expiring in 2024 (with an option to extend the facility by a further year by mutual consent). These facilities are subject to certain covenants linked to the group's financing structure, specifically regarding the ratios of net debt and interest to profit. The group has complied with these covenants throughout the year.

At the year end, the group also had other borrowing facilities available of £87.8m (2018: £105.3m).

Private placements
In October and December 2014, $50m and $75m respectively were raised through a private placement with US institutions. The proceeds of the issue of $50m Series A notes 3.81% due 2021 and $75m Series B notes 4.17% due 2024 were used to refinance maturing private placements.

The US private placement loans are accounted for on an amortised cost basis, adjusted for the impact of hedge accounting (as described below), and are retranslated at the exchange rate at each period end. The carrying value of the private placement liabilities at 31 December 2019 was £97.2m (2018: £98.2m).

Hedging
The 2014 $50m and $75m fixed rate private placement liabilities were swapped into floating rate by means of US dollar interest rate swaps ('the 2014 swaps'). The 2014 swaps have the same maturity as the private placement liabilities and have been designated as fair value hedges. The objective being, to protect against the group's exposure to changes in the fair value of the US private placement debt and related interest cash flows due to changes in US dollar interest rates.

The fair value of the 2014 swaps at 31 December 2019 was £3.4m (2018: £0.4m) and is included in other non-current assets. There was no derivative liability included in non-current liabilities in 2019 (2018: £0.3m). The effective portion of the changes in the fair value of the 2014 swaps gave rise to a gain of £3.3m (2018: loss of £1.7m), which has been taken to the income statement along with the equal and opposite movement in fair value of the corresponding hedged items.

All hedges are tested for effectiveness every six months. All hedging relationships remained effective during the year.

Accounting classifications

	2019 £m	2018 £m
Financial assets measured at fair value through profit or loss		
– Non-qualifying deferred compensation plan	**17.1**	17.6
– Interest rate swaps	**3.4**	0.4
Financial assets measured at amortised cost		
– Trade receivables	**483.9**	451.7
– Contract assets	**102.1**	106.3
– Cash and cash equivalents	**98.9**	110.5
Financial liabilities at fair value through profit or loss		
– Interest rate swaps	–	(0.3)
– Forward exchange contracts	–	(0.1)
– Loans and borrowings	**(97.2)**	(100.3)
Financial liabilities measured at amortised cost		
– Trade payables	**(291.5)**	(262.8)
– Contract liabilities	**(42.0)**	(41.4)
– Loans and borrowings	**(214.8)**	(296.4)
– Lease liabilities[1] (note 25)	**(76.7)**	–

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.

Effective interest rates and maturity analysis
In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature.

	2019						
	Effective interest rate %	**Due within 1-2 years £m**	**Due within 2-5 years £m**	**Due after more than 5 years £m**	**Total non-current £m**	**Due within 1 year £m**	**Total £m**
Bank overdrafts	**3.2**	**–**	**–**	**–**	**–**	**(11.4)**	**(11.4)**
Bank loans[1]	**3.1**	**–**	**(192.3)**	**(2.5)**	**(194.8)**	**(2.9)**	**(197.7)**
Other loans[1]	**3.5**	**(38.1)**	**(62.8)**	**–**	**(100.9)**	**(0.3)**	**(101.2)**
Obligations under finance leases[1]	**4.1**	**(0.1)**	**(0.9)**	**–**	**(1.0)**	**(0.7)**	**(1.7)**
Lease liabilities[2]	**5.2**	**(14.2)**	**(25.7)**	**(11.1)**	**(51.0)**	**(25.7)**	**(76.7)**
Total loans and borrowings		**(52.4)**	**(281.7)**	**(13.6)**	**(347.7)**	**(41.0)**	**(388.7)**
Bank balances[1]	**1.2**	**–**	**–**	**–**	**–**	**95.0**	**95.0**
Short-term deposits[1]	**7.0**	**–**	**–**	**–**	**–**	**3.9**	**3.9**
Net debt		**(52.4)**	**(281.7)**	**(13.6)**	**(347.7)**	**57.9**	**(289.8)**

[1]These include assets and liabilities bearing interest at a fixed interest rate.
[2]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.

	2018[2]						
	Effective interest rate %	Due within 1-2 years £m	Due within 2-5 years £m	Due after more than 5 years £m	Total non-current £m	Due within 1 year £m	Total £m
Bank overdrafts	5.2	–	–	–	–	(6.8)	(6.8)
Bank loans[1]	3.0	–	(248.4)	(3.1)	(251.5)	(34.3)	(285.8)
Other loans[1]	3.4	(0.8)	(41.3)	(59.4)	(101.5)	(0.5)	(102.0)
Obligations under finance leases[1]	7.4	(0.7)	(0.2)	–	(0.9)	(1.2)	(2.1)
Total loans and borrowings		(1.5)	(289.9)	(62.5)	(353.9)	(42.8)	(396.7)
Bank balances[1]	0.9	–	–	–	–	106.4	106.4
Short-term deposits[1]	6.0	–	–	–	–	4.1	4.1
Net debt		(1.5)	(289.9)	(62.5)	(353.9)	67.7	(286.2)

[1]These include assets and liabilities bearing interest at a fixed interest rate.
[2]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.

Loans and borrowings consist of the following:

	2019 £m	2018 £m
$75m private placement (due December 2024)	**59.3**	59.4
$50m private placement (due October 2021)	**37.9**	38.8
£375m syndicated revolving credit facility[1] (expiring November 2024)	**192.0**	248.0
€35m term facility (repaid February 2019)	**–**	31.5
Bank overdrafts	**11.4**	6.8
Obligations under finance leases	**1.7**	2.1
Lease liabilities[2] (note 25)	**76.7**	–
Other loans and borrowings	**9.7**	10.1
Total loans and borrowings	**388.7**	396.7

[1]With an option to extend the facility by a further one year with mutual consent.
[2]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.

The group has substantial borrowing facilities available to it. The undrawn committed facilities available at 31 December 2019 amounted to £205.0m (2018: £148.8m). This mainly comprised the unutilised portion of the group's £375m revolving credit facility which expires on 23 November 2024 (with an option to extend the facility by one further year by mutual consent). In addition, the group had undrawn uncommitted borrowing facilities totalling £42.0m at 31 December 2019 (2018: £64.8m). Uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time. Facilities totalling £4.6m (2018: £5.6m), including finance leases, are secured against certain assets. Future obligations under finance leases totalled £1.7m (2018: £2.3m), including interest of nil (2018: £0.2m).

Changes in loans and borrowings were as follows:

	2018 £m	**IFRS 16 £m**	**Cash flows £m**	**Other[2] £m**	**New leases £m**	**Foreign exchange movements £m**	**Fair value changes £m**	**2019 £m**
Bank overdrafts	(6.8)	–	**(4.8)**	–	–	**0.2**	–	**(11.4)**
Bank loans	(285.8)	–	**82.3**	–	–	**5.8**	–	**(197.7)**
Other loans	(102.0)	–	**(0.7)**	–	–	**4.8**	**(3.3)**	**(101.2)**
Obligations under finance leases	(2.1)	–	**0.3**	–	–	**0.1**	–	**(1.7)**
Lease liabilities[1] (note 25)	–	**(88.1)**	**23.6**	**7.1**	**(22.9)**	**3.6**	–	**(76.7)**
Total loans and borrowings	(396.7)	**(88.1)**	**100.7**	**7.1**	**(22.9)**	**14.5**	**(3.3)**	**(388.7)**
Derivative financial instruments	–	–	**0.1**	–	–	–	**3.3**	**3.4**

[1]The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. As such, comparative information has not been restated.
[2] Other comprise lease disposals and contract modifications.

Cash flow hedges

At 31 December 2019 the group held no instruments to hedge exposures to changes in foreign currency rates. At 2018 the group had the following instruments:

	2018						
	Maturity			Carrying amount		Change in fair value used for for calculating hedge ineffectiveness	Nominal amount[2]
	< 1 year £m	1-2 years £m	2-5 years £m	Asset £m	Liability[1] £m	£m	$m
Forward exchange contracts	(0.1)	–	–	–	(0.1)	–	15.0

[1]Included within trade and other payables.
[2]The average GBP/USD forward contract exchange rate is 1.28.

The group had the following hedged items and hedge ineffectiveness relating to cash flow hedges in 2018:

	2018					
	Cash flow hedge transfers to income statement £m	Gains in other comprehensive income £m	Cash flow hedge reserve balance £m	Foreign currency translation reserve £m	Change in value used for calculating hedge ineffectiveness £m	Hedge ineffectiveness in profit or loss £m
Foreign currency loans	0.6	(0.6)	–	–	–	–
$40m private placement	0.4	(0.4)	–	–	–	–

Fair value hedges

The group held the following instruments to hedge exposures to changes in interest rates:

	2019							
	Maturity				**Carrying amount**		**Change in fair value used for calculating hedge ineffectiveness**	**Nominal amount[2]**
	< 1 year £m	**1-2 years £m**	**2-5 years £m**	**>5 years £m**	**Asset[1] £m**	**Liability £m**	**£m**	**$m**
Interest rate swaps	**–**	**0.5**	**2.9**	**–**	**3.4**	**–**	**–**	**19.4**

[1]Included within other assets.
[2]The average fixed interest rate is 4.0%.

	2018							
	Maturity				Carrying amount		Change in fair value used for calculating hedge ineffectiveness	Nominal amount[3]
	< 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Asset[1] £m	Liability[2] £m	£m	$m
Interest rate swaps	–	–	(0.3)	0.4	0.4	(0.3)	0.1	24.5

[1]Included within other assets.
[2]Included within trade and other payables.
[3]The average fixed interest rate is 4.0%.

The group had the following hedged items relating to the above instruments:

	2019			2018		
	Carrying amount liability[1] £m	**Change in fair value used for calculating hedge ineffectiveness £m**	**Hedge ineffectiveness in profit or loss[2] £m**	Carrying amount liability[1] £m	Change in fair value used for calculating hedge ineffectiveness £m	Hedge ineffectiveness in profit or loss[2] £m
$125m private placements	**(97.2)**	–	–	(98.5)	(0.1)	–
Fair value hedge adjustments	**3.3**	–	–	1.7	n/a	–

[1]Included within loans and borrowings.
[2]Included in operating profit for the year.

Non-interest-bearing financial liabilities comprise trade payables and contract liabilities of £333.5m (2018: £304.2m) which were payable within one year.

Fair values

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, being derivatives, interest-bearing loans and borrowings, contingent consideration and payables, receivables and construction assets.

Derivatives
The fair value of interest rate and cross-currency swaps are calculated based on expected future principal and interest cash flows discounted using market rates prevailing at the balance sheet date. The valuation methods of all of the group's derivative financial instruments carried at fair value are categorised as Level 2. Level 2 assets are financial assets and liabilities that do not have regular market pricing, but whose fair value can be determined based on other data values or market prices.

Interest-bearing loans and borrowings
Fair value is calculated based on expected future principal and interest cash flows discounted using appropriate discount rates prevailing at the balance sheet date.

Contingent consideration
Fair value is calculated based on the amounts expected to be paid, determined by reference to forecasts of future performance of the acquired businesses discounted using appropriate discount rates prevailing at the balance sheet date and the probability of contingent events and targets being achieved.

The valuation methods of all of the group's contingent consideration carried at fair value are categorised as Level 3. Level 3 assets are financial assets and liabilities that are considered to be the most illiquid. Their values have been estimated using available management information including subjective assumptions.

There are no individually significant unobservable inputs used in the fair value measurement of the group's contingent consideration as at 31 December 2019. The remaining balance at 31 December 2019 depends on the forecast outcome of one project.

The following table shows a reconciliation from the opening to closing balances for contingent consideration:

	2019 £m	2018 £m
At 1 January	**2.8**	9.3
Provision released (note 8)	–	(0.5)
Additional amounts provided (note 8)	–	0.4
Paid during the year	**(0.3)**	(6.3)
Exchange differences[1]	**(0.1)**	(0.1)
At 31 December	**2.4**	2.8

[1] Included in other comprehensive income.

In 2019 the contingent consideration in respect of acquisitions is payable between one and two years. In 2018 £2.4m was payable between one and two years and £0.4m within one year.

The fair value measurement of the contingent consideration could be affected if the forecast financial performance is different to that estimated. A better than estimated performance may increase the value of the contingent consideration payable.

Payables, receivables and contract assets
For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted using appropriate discount rates.

Interest rate and currency profile
The profile of the group's financial assets and financial liabilities after taking account of the impact of hedging instruments was as follows:

	2019					
	Sterling	**USD**	**Euro**	**CAD**	**Other[1]**	**Total**
Weighted average fixed debt interest rate (%)	–	**2.4**	**1.3**	**4.9**	**11.0**	–
Weighted average fixed debt period (years)	–	**0.8**	**5.5**	**3.4**	**2.0**	–

	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed rate financial liabilities	–	**(0.6)**	**(3.3)**	**(0.9)**	**(3.7)**	**(8.5)**
Floating rate financial liabilities	**(37.0)**	**(120.5)**	**(15.0)**	**(48.3)**	**(82.7)**	**(303.5)**
Lease liabilities	**(2.3)**	**(48.9)**	**(10.9)**	**(4.6)**	**(10.0)**	**(76.7)**
Financial assets	**0.8**	**35.7**	**10.4**	**2.4**	**49.6**	**98.9**
Net debt	**(38.5)**	**(134.3)**	**(18.8)**	**(51.4)**	**(46.8)**	**(289.8)**

	2018					
	Sterling	USD	Euro	CAD	Other[1]	Total
Weighted average fixed debt interest rate (%)	–	–	0.5	–	11.3	–
Weighted average fixed debt period (years)	–	–	0.8	–	2.1	–

	£m	£m	£m	£m	£m	£m
Fixed rate financial liabilities	–	–	(36.0)	–	(4.5)	(40.5)
Floating rate financial liabilities	(51.4)	(170.5)	(3.5)	(30.5)	(100.3)	(356.2)
Financial assets	9.9	34.4	24.7	6.1	35.4	110.5
Net debt	(41.5)	(136.1)	(14.8)	(24.4)	(69.4)	(286.2)

[1]Included within other floating rate financial liabilities are AUD revolver loans of £35.5m (2018: £39.2m), ZAR revolver loans of £11.0m (2018: £6.6m), SGD revolver loans of £9.6m (2018: £29.5m) and AED revolver loans of £13.7m (2018: £14.3m). Included within other financial assets are AUD cash balances of £10.8m (2018: £5.9m), ZAR cash balances of £2.3m (2018: £5.0m) and SGD cash balances of £1.7m (2018: £2.9m).

Sensitivity analysis
At 31 December 2019, it is estimated that a general movement of one percentage point in interest rates would increase or decrease the group's profit before taxation by approximately £2.1m.

It is estimated that a general increase of ten percentage points in the value of sterling against other principal foreign currencies would have decreased the group's profit before taxation and non-underlying items by approximately £10.4m (2018: £8.5m) for the year ended 31 December 2019, with the estimated impact of a ten percentage points decrease in the value of sterling being an increase of £12.7m (2018: £8.8m) in the group's profit before taxation and non-underlying items. This sensitivity relates to the impact of retranslation of foreign earnings only. The impact on the group's earnings of currency transaction exchange risk is not significant. These sensitivities assume all other factors remain constant.

25 Lease liabilities

Set out below are the carrying amounts of lease liabilities (included within note 24 within loans and borrowings) and the movements during the year:

	2019 **£m**
At 1 January 2019	**88.1**
Additions	22.9
Disposals and contract modifications	(7.1)
Interest expense	4.3
Payments	(27.9)
Foreign exchange movements	(3.6)
At 31 December 2019	**76.7**

Current	**25.7**
Non-current	**51.0**

The group adopted IFRS 16 'Leases' on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated.

26 Share capital and reserves

	2019 **£m**	2018 £m
Allotted, called up and fully paid		
Equity share capital:		
73,099,735 ordinary shares of 10p each (2018: 73,099,735)	**7.3**	7.3

The company has one class of ordinary shares, which carries no rights to fixed income. There are no restrictions on the transfer of these shares.

The capital redemption reserve is a non-distributable reserve created when the company's shares were redeemed or purchased other than from the proceeds of a fresh issue of shares.

The other reserve is a non-distributable reserve created when merger relief was applied to an issue of shares under section 612 of the Companies Act 2006 to part fund the acquisition of Keller Canada. The reserve becomes distributable should Keller Canada be disposed of.

At 31 December 2019 the total number of shares held in Treasury was 1,029,451 (2018: 1,039,855).

27 Related party transactions
Transactions between the parent, its subsidiaries and joint operations, which are related parties, have been eliminated on consolidation. Other related party transactions are disclosed below:

Compensation of key management personnel
The remuneration of the Board and Executive Committee, who are the key management personnel, comprised:

	2019 **£m**	2018 £m
Short-term employee benefits	**5.4**	5.1
Post-employment benefits	**0.4**	0.4
Termination payments	**0.2**	1.4
	6.0	6.9

Other related party transactions
As at the year end there was a net balance of £0.2m owed to (2018: £1.1m owed by) the joint venture. These amounts are unsecured, have no fixed date of repayment and are repayable on demand. There were no sales by the group to joint ventures during the year (2018: none).

During the year two members of management acquired the right to purchase the Cyntech Anchors business at a fixed price over the next five years at their option.

28 Commitments

Capital commitments
Capital expenditure contracted for at the end of the reporting period but not yet incurred was £5.0m (2018: £1.9m) and relates to property, plant and equipment purchases.

29 Contingent liabilities
Claims against the group arise in the normal course of trading. Some of these claims involve or may involve litigation and, in a few instances, the total amounts claimed against the group may be significant in relation to the size of the related contract. However, the amounts agreed, if any, are generally less than the total amount claimed, in many cases significantly so, and are predominantly covered by the group's insurance arrangements.

The company and certain of its subsidiary undertakings have entered into a number of guarantees in the ordinary course of business, the effects of which are to guarantee or cross-guarantee certain bank borrowings and other liabilities of other group companies. At 31 December 2019, the group had outstanding standby letters of credit and surety bonds for the group's captive insurance arrangements totalling £28.8m (2018: £31.2m).

The company has provided a guarantee of certain subsidiaries' liabilities to take the exemption from having to prepare individual accounts under section 394A and section 394C of the Companies Act 2006 and exemption from having their financial statements audited under sections 479A to 479C of the Companies Act 2006.

30 Share-based payments

The group operates a Long-Term Incentive Plan ('Plan').

Outstanding awards are as follows:

	Number
Outstanding at 31 December 2017 and 1 January 2018	1,348,034
Granted during 2018	668,297
Lapsed during 2018	(278,751)
Exercised during 2018	(97,863)
Outstanding at 31 December 2018	**1,639,717**
Granted during 2019	**1,078,438**
Lapsed during 2019	**(617,474)**
Exercised during 2019	**(10,404)**
Outstanding at 31 December 2019	**2,090,277**
Exercisable at 1 January 2018	–
Exercisable at 31 December 2018 and 1 January 2019	–
Exercisable at 31 December 2019	**–**

The average share price during the year was 615.9p (2018: 920p).

Under IFRS 2, the fair value of services received in return for share awards granted is measured by reference to the fair value of share options granted. The estimate of the fair value of share awards granted is measured based on a stochastic model. The contractual life of the award is used as an input into this model, with expectations of early exercise being incorporated into the model.

The inputs into the stochastic model are as follows:

	2019	2018
Share price at grant	**625p**	1,036p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**30.8%**	30.0%
Expected life	**3 years**	3 years
Risk-free rate	**0.84%**	0.68%
Expected dividend yield	**0.00%**	0.00%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous three years, adjusted for any expected changes to future volatility due to publicly available information.

The group recognised total expenses (included in operating costs) of £0.8m (2018: £1.4m) related to equity-settled, share-based payment transactions.

The weighted average fair value of options granted in the year was 582.2p (2018: 939.7p).

31 Retirement benefit liabilities

The group operates pension schemes in the UK and overseas.

In the UK, the group operates the Keller Group Pension Scheme ('the Scheme'), a defined benefit scheme, which has been closed to new members since 1999 and was closed to all future benefit accrual with effect from 31 March 2006. Under the Scheme, employees are normally entitled to retirement benefits on attainment of a retirement age of 65. The Scheme is subject to UK pensions legislation which, inter alia, provides for the regulation of work-based pension schemes by The Pensions Regulator. The trustees are aware of and adhere to the Codes of Practice issued by The Pensions Regulator. The Scheme trustees currently comprise one member-nominated trustee and two employer-nominated trustees. An employer-nominated trustee is also the Chair of the trustees. The Scheme exposes the group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk, which are managed through the investment strategy to acceptable levels established by the trustees. The Scheme can invest in a wide range of asset classes including equities, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risk in the portfolio or for the purposes of efficient portfolio management. With effect from the most recent actuarial valuation date (5 April 2017), the group has agreed to pay annual contributions of £2.4m, to increase by 3.6% per annum, until 5 January 2024, subject to a review of the level of employer contributions at the next actuarial review in 2020.

Between 1990 and 1997 the Scheme members accrued a Guaranteed Minimum Pension (GMP). This amount differed between men and women in accordance with the rules which were applicable at that time. On 26 October 2018 there was a court judgement (in the case of Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC) that confirmed that GMP is to be made equal for men and women. In 2018, the estimated increase in the Scheme's liabilities was £1.3m, which was recognised as a past service cost in 2018 as a charge to non-underlying items. This estimate remains appropriate for 2019. The actual cost may differ when the GMP equalisation exercise is complete.

The group has two UK defined contribution retirement benefit schemes. There were no contributions outstanding in respect of these schemes at 31 December 2019 (2018: £nil). The total UK defined contribution pension charge for the year was £1.2m (2018: £1.0m).

The group has defined benefit retirement obligations in Germany and Austria. Under these schemes, employees are entitled to retirement benefits on attainment of a retirement age of 65, provided they have 15 years of employment with the group. The amount of benefit payable depends on the grade of the employee and the number of years of service, up to a maximum of 40 years. Benefits under these schemes only apply to employees who joined the group prior to 1991. These defined benefit retirement obligations are funded on the group's balance sheet and obligations are met as and when required by the group.

The group operates a defined contribution scheme for employees in North America, where the group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total North America pension charge for the year was £6.1m (2018: £5.5m).

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 9.5% (2018: 9.5%). The total Australian pension charge for the year was £3.5m (2018: £5.1m).

Details of the group's defined benefit schemes are as follows:

	The Keller Group Pension Scheme (UK) 2019 £m	The Keller Group Pension Scheme (UK) 2018 £m	**German and Austrian Schemes 2019 £m**	German and Austrian Schemes 2018 £m
Present value of the scheme liabilities	**(60.4)**	(55.2)	**(17.7)**	(16.5)
Fair value of assets	**52.2**	45.2	–	–
Deficit in the scheme	**(8.2)**	(10.0)	**(17.7)**	(16.5)
Irrecoverable surplus	**(1.8)**	(1.4)	–	–
Net defined benefit liability	**(10.0)**	(11.4)	**(17.7)**	(16.5)

Based on the net deficit of the Scheme as at 31 December 2019 and the committed payments under the Schedule of Contributions signed on 15 June 2018, there is a notional surplus of £1.8m (2018: £1.4m). Management is of the view that, based on the Scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' has been recognised. The level of company contributions is subject to review in 2020.

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

	The Keller Group Pension Scheme (UK) 2019 %	The Keller Group Pension Scheme (UK) 2018 %	**German and Austrian Schemes 2019 %**	German and Austrian Schemes 2018 %
Discount rate	**2.0**	2.9	**0.46**	1.55
Interest on assets	**2.0**	2.9	–	–
Rate of increase in pensions in payment	**3.4**	3.6	**2.0**	2.0
Rate of increase in pensions in deferment	**3.3**	3.5	**2.0**	2.0
Rate of inflation	**3.3**	3.5	**2.0**	2.0

The mortality rate assumptions are based on published statistics. The average remaining life expectancy, in years, of a pensioner retiring at the age of 65 at the balance sheet date is:

	The Keller Group Pension Scheme (UK) 2019	The Keller Group Pension Scheme (UK) 2018	**German and Austrian Schemes 2019**	German and Austrian Schemes 2018
Male currently aged 65	**21.7**	22.2	**20.7**	20.6
Female currently aged 65	**23.2**	23.6	**24.1**	24.0

The assets of the schemes were as follows:

	The Keller Group Pension Scheme (UK) 2019 £m	The Keller Group Pension Scheme (UK) 2018 £m	German and Austrian Schemes 2019 £m	German and Austrian Schemes 2018 £m
Equities	**17.5**	14.2	–	–
Target return funds	**14.5**	12.7	–	–
Gilts	**10.1**	9.5	–	–
Bonds	**10.0**	8.7	–	–
Cash	**0.1**	0.1	–	–
	52.2	45.2	–	–

	The Keller Group Pension Scheme (UK) 2019 £m	The Keller Group Pension Scheme (UK) 2018 £m	German and Austrian Schemes 2019 £m	German and Austrian Schemes 2018 £m
Changes in scheme liabilities				
Opening balance	**(55.2)**	(58.9)	**(16.5)**	(16.4)
Current service cost	–	–	**(0.3)**	(0.4)
Past service cost in respect of GMP (note 8)	–	(1.3)	–	–
Interest cost	**(1.6)**	(1.4)	**(0.2)**	(0.2)
Benefits paid	**2.0**	2.7	**0.7**	0.8
Exchange differences	–	–	**1.2**	(0.3)
Experience gain on defined benefit obligation	–	–	–	–
Changes to demographic assumptions	**1.7**	0.3	–	–
Changes to financial assumptions	**(7.3)**	3.4	**(2.6)**	–
Closing balance	**(60.4)**	(55.2)	**(17.7)**	(16.5)
Changes in scheme assets				
Opening balance	**45.2**	46.1	–	–
Interest on assets	**1.3**	1.1	–	–
Administration costs	**(0.2)**	(0.2)	–	–
Employer contributions	**2.5**	2.4	–	–
Benefits paid	**(2.0)**	(2.7)	–	–
Return on plan assets less interest	**5.4**	(1.5)	–	–
Closing balance	**52.2**	45.2	–	–
Actual return on scheme assets	**6.7**	(0.4)	–	–
Statement of comprehensive income				
Return on plan assets less interest	**5.4**	(1.5)	–	–
Changes to demographic assumptions	**1.7**	0.3	–	–
Changes to financial assumptions	**(7.3)**	3.4	**(2.6)**	–
Change in recoverable surplus	**(0.4)**	(1.4)	–	–
Remeasurements of defined benefit plans	**(0.6)**	0.8	**(2.6)**	–
Cumulative remeasurements of defined benefit plans	**(24.2)**	(23.6)	**(9.6)**	(7.0)
Expense recognised in the income statement				
Current service cost	–	–	**0.3**	0.4
Past service cost in respect of GMP (note 8)	–	1.3	–	–
Administration costs	**0.2**	0.2	–	–
Operating costs	**0.2**	1.5	**0.3**	0.4
Net pension interest cost	**0.3**	0.3	**0.2**	0.2
Expense recognised in the income statement	**0.5**	1.8	**0.5**	0.6
Movements in the balance sheet liability				
Net liability at start of year	**11.4**	12.8	**16.5**	16.4
Expense recognised in the income statement	**0.5**	1.8	**0.5**	0.6
Employer contributions	**(2.5)**	(2.4)	–	–
Benefits paid	–	–	**(0.7)**	(0.8)
Exchange differences	–	–	**(1.2)**	0.3
Remeasurements of defined benefit plans	**0.6**	(0.8)	**2.6**	–
Net liability at end of year	**10.0**	11.4	**17.7**	16.5

A reduction in the discount rate of 0.1% would increase the deficit in the schemes by £1.2m, whilst a reduction in the inflation assumption of 0.1%, including its impact on the revaluation in deferment and pension increases in payment, would decrease the deficit by £0.8m. An increase in the mortality rate by one year would increase the deficit in the schemes by £4.1m.The weighted average duration of the defined benefit obligation is approximately 17 years for the UK scheme and 12 years for the German and Austrian schemes. The history of experience adjustments on scheme assets and liabilities for all the group's defined benefit pension schemes are as follows:

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of defined benefit obligations	**(78.1)**	(71.7)	(75.3)	(74.8)	(61.3)
Fair value of scheme assets	**52.2**	45.2	46.1	43.4	38.2
Deficit in the schemes	**(25.9)**	(26.5)	(29.2)	(31.4)	(23.1)
Irrecoverable surplus	**(1.8)**	(1.4)	–	–	–
Net defined benefit liability	**(27.7)**	(27.9)	(29.2)	(31.4)	(23.1)
Experience adjustments on scheme liabilities	**(8.1)**	3.7	(1.8)	(11.3)	1.6
Experience adjustments on scheme assets	**5.4**	(1.5)	3.2	3.9	(1.3)

32 Non-controlling interests

Financial information of subsidiaries that have a material non-controlling interests (NCI) is provided below:

Name	Country of incorporation	2019	2018
Keller Foundations Speciales SPA	Algeria	**49%**	49%
Keller Turki Company Limited	Saudi Arabia	**35%**	35%

Profit/(loss) attributable to NCI:

	2019 £m	2018 £m
Keller Foundations Speciales SPA	**0.8**	0.9
Keller Turki Company Limited	**(0.3)**	0.1
Other interests	**(0.2)**	–
	0.3	1.0

Share of NCI net assets:

	2019 £m	2018 £m
Keller Foundations Speciales SPA	**4.9**	4.1
Keller Turki Company Limited	**1.5**	1.9
Other interests	**(1.1)**	(1.1)
	5.3	4.9

Aggregate amounts relating to material NCI:

	2019 £m Keller Foundations Speciales SPA	2019 £m Keller Turki Company Limited	2018 £m Keller Foundations Speciales SPA	2018 £m Keller Turki Company Limited
Revenue	**6.0**	**2.0**	5.9	2.5
Operating costs	**(5.0)**	**(2.3)**	(4.6)	(2.4)
Operating profit	**1.0**	**(0.3)**	1.3	0.1
Finance costs	–	–	(0.1)	–
Profit before taxation	**1.0**	**(0.3)**	1.2	0.1
Taxation	**(0.2)**	–	(0.3)	–
Profit/(loss) attributable to NCI	**0.8**	**(0.3)**	0.9	0.1

	2019 £m Keller Foundations Speciales SPA	2019 £m Keller Turki Company Limited	2018 £m Keller Foundations Speciales SPA	2018 £m Keller Turki Company Limited
Non-current assets	**1.9**	**0.7**	2.3	1.1
Current assets	**4.9**	**2.0**	6.8	2.0
Current liabilities	**(1.9)**	**(1.2)**	(5.0)	(0.8)
Non-current liabilities	–	–	–	(0.4)
Share of net assets	**4.9**	**1.5**	4.1	1.9

33 Prior year restatement

The accounting policies set out in note 2 were applied in preparing the financial statements for the year ended 31 December 2019 and the comparative information presented for the year ended 31 December 2018. In preparing the consolidated balance sheet for the year ended 31 December 2019, the group restated amounts reported previously in the consolidated financial statements as a result of a change in accounting policy and a reclassification of liabilities as outlined below.

Presented below is a reconciliation of the consolidated balance sheet previously reported as at 31 December 2018 to the 31 December 2019 comparative consolidated balance sheet:

	Note	2018 Presented £m	2018 Restatements £m	**2018 Re-presented £m**
Trade and other payables	a	(474.4)	8.6	**(465.8)**
Provisions	b	(10.8)	(0.2)	**(11.0)**
Current liabilities		(546.6)	8.4	**(538.2)**
Provisions	a,b	(14.6)	(27.2)	**(41.8)**
Non-current liabilities	a,b	(452.9)	(27.2)	**(480.1)**
Total liabilities	a,b	(999.5)	(18.8)	**(1,018.3)**
Net assets	a,b	445.3	(18.8)	**426.5**
Retained earnings	a,b	289.3	(18.8)	**270.5**
Equity attributable to equity holders of the parent	a,b	440.4	(18.8)	**421.6**
Total equity	a,b	445.3	(18.8)	**426.5**

The 31 December 2018 consolidated balance sheet previously reported has been restated as follows:

a) The group previously classified legal claims within trade and other payables. This classification has been revised and legal claims have been reclassified to provisions. As a result, trade and other payables have decreased by £8.6m and non-current provisions have increased by £8.6m to reflect the revised classification.

b) The group has a captive insurance arrangement whereby contractual claims against the group are held. Recognition of contractual claims more fairly reflect the liability of the group, and as such, a change was made to reflect the requirements of IAS 37. Claims provisions are based on assumptions regarding past claims experience and on assessment by an independent actuary. The total estimated provision as at 31 December 2018 is £18.8m. Current provisions have increased by £0.2m to reflect amounts expected to be settled within one year, and non-current provisions have increased by £18.6m to reflect amounts expected to be settled greater than one year.

34 Post balance sheet events

There were no material post balance sheet events between the balance sheet date and the date of this report.

Adjusted performance measures

The group's results as reported under International Financial Reporting Standards (IFRS) and presented in the financial statements (the 'statutory results') are significantly impacted by movements in exchange rates relative to sterling, as well as by exceptional items and non-trading amounts relating to acquisitions.

As a result, adjusted performance measures have been used throughout the Annual Report and Accounts to describe the group's underlying performance. The Board and Executive Committee use these adjusted measures to assess the performance of the business because they consider them more representative of the underlying ongoing trading result and allow more meaningful comparison to prior year.

Underlying measures
The term 'underlying' excludes the impact of items which are exceptional by their size and/or are non-trading in nature, including amortisation of acquired intangible assets and other non-trading amounts relating to acquisitions (collectively 'non-underlying items'), net of any associated tax. Underlying measures allow management and investors to compare performance without the potentially distorting effects of one-off items or non-trading items. Non-underlying items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group.

Constant currency measures
The constant currency basis ('constant currency') adjusts the comparative to exclude the impact of movements in exchange rates relative to sterling. This is achieved by retranslating the 2018 results of overseas operations into sterling at the 2019 average exchange rates.

A reconciliation between the underlying results and the reported statutory results is shown on the face of the consolidated income statement, with non-underlying items detailed in note 8. A reconciliation between the 2018 underlying result and the 2018 constant currency result is shown below and compared to the underlying 2019 performance:

Revenue by segment

	2019	2018				
	Statutory £m	Statutory £m	Impact of exchange movements £m	Constant currency £m	**Statutory change %**	**Constant currency change %**
North America	**1,333.9**	1,161.4	43.3	1,204.7	**+15%**	**+11%**
Europe, Middle East and Africa	**679.6**	668.2	(3.1)	665.1	**+2%**	**+2%**
Asia-Pacific	**287.0**	394.9	(4.1)	390.8	**-27%**	**-27%**
Group	**2,300.5**	2,224.5	36.1	2,260.6	**+3%**	**+2%**

Underlying operating profit by segment

	2019	2018				
	Underlying IAS 17 basis £m	Underlying IAS 17 basis £m	Impact of exchange movements £m	Constant currency £m	**Underlying change %**	**Constant currency change %**
North America	**77.3**	78.6	3.2	81.8	**-2%**	**-6%**
Europe, Middle East and Africa	**28.1**	39.7	0.8	40.5	**-29%**	**-31%**
Asia-Pacific	**2.8**	(18.0)	(0.6)	(18.6)	**n/a**	**n/a**
Central items	**(6.4)**	(3.7)	(0.1)	(3.8)	**-73%**	**-68%**
Group	**101.8**	96.6	3.3	99.9	**+5%**	**+2%**

Underlying operating margin
Underlying operating margin is underlying operating profit as a percentage of revenue.

Other adjusted measures
Where not presented and reconciled on the face of the consolidated income statement, consolidated balance sheet or consolidated cash flow statement, the adjusted measures are reconciled to the IFRS statutory numbers below:

EBITDA

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m
Underlying operating profit	**103.8**	101.8	96.6
Depreciation of owned property, plant and equipment	**68.4**	68.4	69.7
Depreciation of right-of-use assets	**25.6**	–	–
Amortisation of intangible assets	**0.6**	0.6	1.2
Underlying EBITDA	**198.4**	170.8	167.5
Non-underlying items in operating costs	**(28.7)**	(28.7)	(64.2)
Non-underlying items in other operating income	**3.3**	3.3	0.5
EBITDA	**173.0**	145.4	103.8

Net finance costs

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m
Finance income	**(0.8)**	(0.8)	(0.6)
Underlying finance costs	**23.3**	19.0	16.7
Underlying net finance costs	**22.5**	18.2	16.1
Non-underlying finance costs	–	–	0.5
Net finance costs	**22.5**	18.2	16.6

Net capital expenditure

	2019 **£m**	2018 £m
Acquisition of property, plant and equipment	**62.2**	85.1
Acquisition of other intangible assets	**0.7**	0.5
Proceeds from sale of property, plant and equipment	**(10.9)**	(8.5)
Net capital expenditure	**52.0**	77.1

Net debt

	2019 **IFRS 16 basis** **£m**	2019 IAS 17 basis £m	2018 IAS 17 basis £m
Current loans and borrowings	**41.0**	15.3	42.8
Non-current loans and borrowings	**347.7**	296.7	353.9
Cash and cash equivalents	**(98.9)**	(98.9)	(110.5)
Net debt	**289.8**	213.1	286.2

Order book

The group’s disclosure of its order book is aimed to provide insight into its backlog of work and future performance. The group’s order book is not a measure of past performance and therefore cannot be derived from its financial statements. The group’s order book comprises the unexecuted elements of orders on contracts that have been awarded. Where a contract is subject to variations, only secured variations are included in the reported order book.

Financial record

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018[1] £m	**2019[2] £m**
Consolidated income statement										
Continuing operations										
Revenue	1,068.9	1,154.3	1,317.5	1,438.2	1,599.7	1,562.4	1,780.0	2,070.6	2,224.5	**2,300.5**
Underlying EBITDA	85.0	71.4	91.9	124.2	141.9	155.5	158.6	177.2	167.5	**198.4**
Underlying operating profit	43.3	28.9	48.3	77.8	92.0	103.4	95.3	108.7	96.6	**103.8**
Underlying net finance costs	(3.7)	(7.0)	(4.8)	(3.7)	(6.9)	(7.7)	(10.2)	(10.0)	(16.1)	**(22.5)**
Underlying profit before taxation	39.6	21.9	43.5	74.1	85.1	95.7	85.1	98.7	80.5	**81.3**
Underlying taxation	(11.0)	(5.5)	(13.5)	(23.8)	(29.7)	(33.0)	(29.8)	(24.7)	(22.5)	**(22.4)**
Underlying profit for the year	28.6	16.4	30.0	50.3	55.4	62.7	55.3	74.0	58.0	**58.9**
Non-underlying items[3]	(17.1)	–	–	(20.2)	(56.6)	(36.4)	(7.3)	13.5	(71.8)	**(37.2)**
Profit/(loss) for the year	11.5	16.4	30.0	30.1	(1.2)	26.3	48.0	87.5	(13.8)	**21.7**
Consolidated balance sheet										
Working capital	106.7	119.8	97.6	124.1	104.1	97.1	152.5	181.3	225.4	**210.5**
Property, plant and equipment	275.0	266.1	248.5	281.9	295.6	331.8	405.6	399.2	422.0	**460.6**
Intangible and other non-current assets	122.9	116.4	112.1	202.8	203.4	183.0	218.2	198.3	179.5	**150.8**
Net debt (statutory)	(94.0)	(102.5)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	**(289.8)**
Other net assets/liabilities	(79.8)	(73.0)	(71.3)	(92.5)	(154.6)	(94.9)	(41.1)	(77.1)	(114.2)	**(134.6)**
Net assets	330.8	326.8	335.7	372.6	346.3	334.0	429.6	472.2	426.5	**397.5**
Net debt (IAS 17 basis)	(94.0)	(102.5)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	**(213.1)**
Underlying key performance indicators										
Diluted earnings per share from continuing operations (p)	43.2	24.4	45.0	71.9	74.2	85.4	74.8	101.8	79.1	**81.3**
Dividend per share (p)	22.8	22.8	22.8	24.0	25.2	27.1	28.5	34.2	35.9	**40.0**
Operating margin	4.1%	2.5%	3.7%	5.4%	5.8%	6.6%	5.4%	5.2%	4.3%	**4.5%**
Return on capital employed[4]	10.2%	6.6%	11.6%	16.7%	18.3%	20.5%	15.3%	15.1%	13.2%	**14.4%**
Net debt: EBITDA (statutory)	1.1x	1.4x	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	**1.5x**
Net debt: EBITDA (IAS 17 basis)	1.1x	1.4x	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	**1.2x**

1 Working capital, net assets and return on capital employed presented here do not agree to the published 2018 consolidated financial statements as a result of re-presenting the comparative balance sheet as outlined in note 33 to the financial statements.

2 The group adopted IFRS 16 ‘Leases’ on 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of adoption. Consequently, comparative information has not been restated. 2019 figures presented here are on an IFRS 16 (statutory) basis, unless specified otherwise.

3 Non-underlying items are items which are exceptional by their size or non-trading nature and are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial position of the group.

4 Calculated as operating profit expressed as a percentage of average capital employed. ‘Capital employed’ is net assets before non-controlling interests plus net debt and net defined benefit pension liabilities.