9 March 2021

Keller Group plc Audited Preliminary Results for the year ended 31 December 2020

Keller Group plc ('Keller' or 'the Group'), the world's largest geotechnical specialist contractor, announces its results for the year ended 31 December 2020.

A strong performance ahead of market expectations

	2020 £m	**2019 £m**	**% change**	**Constant currency % change**
Revenue	**2,062.5**	2,300.5	-10%	-10%
Underlying operating profit[1]	**110.1**	103.8	+6%	+5%
Underlying operating profit margin[1]	**5.3%**	4.5%	+80bps	n/a
Underlying profit before tax[1]	**96.9**	81.3	+19%	+18%
Underlying diluted earnings per share[1]	**96.3p**	81.3p	+18%	+18%
Free cash flow	**134.2**	94.9	+41%	
Net debt (bank covenant IAS 17 basis)[2]	**120.9**	213.1	-43%	
Dividend per share	**35.9p**	35.9p	-	
Statutory operating profit	**77.0**	74.1		
Statutory profit before tax	**63.8**	51.6		
Statutory diluted earnings per share	**58.5p**	29.7p		
Net cash inflow from operating activities	**210.5**	163.9		
Statutory net debt (IFRS 16 basis)	**192.5**	289.8		

[1] Underlying operating profit, profit before tax and underlying diluted earnings per share are non-statutory measures which provide readers of this 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 consolidated financial statements

[2] Net debt is presented on a lender covenant basis excluding the impact of IFRS 16 as disclosed within the adjusted performance measures in the consolidated financial statements

Highlights

- Underlying operating profit, cash generation and earnings per share all ahead of market expectations
- Revenue down 10% to £2,062.5m, driven by the impact of COVID-19 and the exit of non-core business activities
- Underlying operating profit of £110.1m, an increase of 6%, driven by a strong first quarter, a resilient second half, particularly in North America, and a full year of profitability in APAC. Underlying operating margin increased to 5.3% (2019: 4.5%)
- Strong cash performance with free cash flow up 41% to £134.2m (2019: £94.9m)
- Net debt (on a bank covenant IAS 17 basis) reduced by 43% to £120.9m, equating to net debt / EBITDA leverage ratio of 0.7x
- Good COVID-19 safety performance and further progress in operational safety evidenced by a 20% improvement in our overall accident frequency rate (AFR)
- Significant strategic progress made with the implementation of all the actions set out a year ago, despite the impact of COVID-19, transforming the Group into a more focused, higher-quality business
- Recommended final dividend of 23.3p, continuing the Group's uninterrupted track record of increasing or maintaining dividends every year since flotation in 1994 and reflecting the financial strength of the Group
- Whilst our order book remains c£1bn, our expectations for a reduced trading performance in 2021 are unchanged given the previously indicated softening in the order intake, late cycle nature of our business and continuing macro uncertainty

Michael Speakman, Chief Executive Officer, said:

"Despite the pandemic, 2020 has been a strong year for Keller, operationally, financially and strategically. The way the Keller team has responded to the challenges of COVID-19, and their actions and commitment are evidenced by the strength of the Group's operational and financial performance during the year. We have also made significant strategic progress, implementing all the actions that we set out a year ago to reshape the business. We are progressively transforming the Group into a more efficient, more focused and higher-quality business with industry-leading margins, achieving both sustainable operational delivery and cash generation.

Notwithstanding the strong momentum at the end of 2020, our expectations for a reduced trading performance in 2021 are unchanged. As previously indicated, we saw a softening in the order intake during the second half of 2020 and into 2021 with overall trading in the early part of the year relatively subdued. This, together with the late cycle nature of our business and the continuing uncertainty arising from the pandemic and macroeconomic outlook, means that we remain suitably cautious about the year ahead. We therefore anticipate 2021 to be a more challenging year than 2020, particularly in the first half which was especially strong last year.

Nonetheless, our leading market positions and the strategic actions we have taken to improve the Group's performance, together with our financial resilience, will allow us to benefit from the longer-term structural growth drivers for global infrastructure and urbanisation in the years ahead. We therefore remain confident in our ability to deliver increasing shareholder returns through underlying profit growth and our progressive dividend policy."

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A webcast for investors and analysts will be held at 08.30 GMT on 9 March 2021
and will also be available later the same day on demand
https://www.investis-live.com/keller/6022cdcddd22a11400bd3c30/mlsw

Conference call:	**Accessing the telephone replay:**
Participants joining by telephone: United Kingdom 0800 640 6441 United Kingdom (Local) 020 3936 2999 All other locations +44 20 3936 2999 **Participant access code: 452727**	A recording will be available until 16 March 2021 UK: 020 3936 3001 All other locations: +44 20 3936 3001 **Access Code: 254159**

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 9,000 staff and operations across five continents, Keller tackles an unrivalled 6,000 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 Principal risks and uncertainties 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).

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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, free cash flow, 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.

APMs are reconciled to the statutory equivalent in the adjusted performance measures section in this Announcement.

Chairman's statement

Overview

The Group delivered a strong performance in 2020, despite the disruption and challenges of the global pandemic. Whilst the Group's revenue decreased, driven by the impact of COVID-19 and the strategic exit of certain non-core businesses, underlying operating profit and operating margin increased. The increase in operating profit was driven by a strong operating performance in North America, the benefit of a full year of profitability in APAC and the initial benefits of the strategic actions we have taken to become a more efficient, more focused and higher-quality business. We have also continued to strengthen the balance sheet with tight working capital management and strong free cash generation which has significantly reduced our net debt.

We have continued to make strong progress with the implementation of our new strategy and, despite the pandemic, the Group has successfully rationalised its geographic presence and exited certain non-core activities in line with the new strategy. Our resources have become increasingly focused on those markets and activities where customers value our skills and expertise, where we can achieve mutual benefits and deliver an appropriate level of financial return. All of these outcomes have been achieved by our resilient, dedicated and hardworking employees around the world, with many going to extraordinary lengths in difficult circumstances to safely deliver on our commitments to our customers.

The fundamental financial strength of the Group's business model, even in the face of the pandemic, is evidenced by the continuation of the Group's progressive dividend policy, whereby we have increased or maintained dividends every year since flotation in 1994.

Strategy

As well as delivering a strong financial performance, and despite the impact of COVID-19, we continued to successfully execute on our new strategy to be the preferred international geotechnical specialist contractor focused on sustainable markets and attractive projects, generating long-term value for our stakeholders. 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.

On 1 January 2020 the reorganisation of our North America division became effective, integrating all of our foundations businesses in North America into one unified organisation, branded as Keller. I am pleased to report we exceeded our 2020 target for the incremental revenue benefit from being able to offer all products and services across North America. We have also generated the anticipated cost and efficiency savings at the top end of the guidance range and significantly earlier than our 2022 target. We are therefore well placed to realise our longer-term objectives of improved market share, operational delivery and financial performance.

In EMEA we executed on our plan to reduce our geographic presence, withdrawing from South America and rationalising Franki Africa into the new combined Middle East and Africa Business Unit. We also exited certain non-core business activities including Wannenwetsch in Germany and Colcrete Eurodrill in the UK.

During 2020, all the business units in the APAC division traded profitably throughout the year, despite COVID-19, reflecting the full-year performance benefits of the business restructuring and management reorganisation that began in late 2018 and completed in 2019.

Our newly formed Middle East and Africa business has combined with APAC, with effect from 1 January 2021, to create our Asia-Pacific, Middle East and Africa (AMEA) division. This brings together under one management team all of our businesses in developing geographies which have similar market characteristics and customers, with a greater focus on large contracts, particularly in the resources sector.

Similar to the North America division, the restructured Europe division is comprised of larger, more functionally self-sufficient business units that benefit from their established market positions in sustainable markets.

Safety

The health and safety of our employees is paramount and this priority was heightened by the COVID-19 pandemic. The guidance and support we provided to our employees followed World Health Organization guidelines, supplemented by local authority guidance in the regions in which we operate, as well as our company-specific protocols. This approach enabled us to continue to execute work, wherever the local regulatory regime allowed, in a safe and productive manner. However, I'm deeply saddened that as a Group we lost two employees due to COVID-19 related illness and our thoughts are with their families.

During the year, Keller's accident frequency rate continued to trend downwards, reaching 0.12, at 31 December 2020. This is the lowest level achieved by Keller, and we believe it to be an industry-leading performance. However, we recognise that we still have a way to go to eradicate harm from our operations. We also significantly reduced the number of serious incidents in the year, but each incident reminds us that we cannot become at all complacent. The Board and management hold safety as paramount and together we continue to push for further improvement in pursuit of our goal of zero harm.

Environmental, Social and Governance

The Board maintains its commitment to the highest standards of governance and has taken steps during the year to consider and strengthen our approach to align with the UK Corporate Governance Code. As the Director responsible for sustainability, I am committed to better understand and oversee our contribution to sustainable development and work collaboratively with our stakeholders to reduce our impacts. Our corporate purpose, 'building the foundations for a sustainable future', is at the heart of everything we do.

We have further integrated into our operations the United Nations Sustainable Development Goals (SDGs) that are most relevant to Keller's core business and therefore where we can have the greatest impact on sustainability.

As a Board we consider the interests of our wide group of stakeholders in the performance of our duties. The Workforce Engagement Committee entered its second year and is making great strides in the Keller People agenda, including the launch of a new Culture and Employee Engagement programme.

Throughout the pandemic the Board has continued to balance the interests of all the Group's stakeholders. At the start of the pandemic we put in place a number of measures across the Group that strengthened our resilience and minimised both the potential human and financial impact of the crisis, including selectively accessing relevant governmental support schemes across our major markets and securing an investment grade £300m facility under the UK Government's Covid Corporate Financing Facility (CCFF). Given the resilience of the business and the probity of management, the CCFF scheme, as anticipated, was never drawn upon. The relatively small amount of support taken by way of the Coronavirus Job Retention Scheme, representing approximately 0.1% of our global employment costs, has been fully repaid.

Board development

In September 2020 we announced the appointment of David Burke as Chief Financial Officer, who joined the Board and Executive Committee in October. David joined Keller from J. Murphy & Sons Ltd, a leading international specialist engineering and construction company, where he had been Chief Financial Officer since 2016. He has a track record of driving business performance and change in the construction and services sectors across varied cultures and geographies including Europe, the Middle East, the Americas and Asia.

On behalf of the Board, I would like to convey my immense gratitude for the substantial contribution that Mark Hooper made during his interim appointment as Chief Financial Officer during a period of significant challenge in our business. Mark joined Keller in 2019 as Group Financial Controller and was Group Chief Financial Officer on an interim basis for 12 months to October 2020. I am delighted at his appointment as Chief Financial Officer, Europe, where I wish him every success in supporting the Group in its strategic endeavour to develop our focused, high-quality business in the region.

Dividends

Notwithstanding the COVID-19 pandemic, the Board decided that it would be appropriate to maintain the 2019 final dividend and declare an interim dividend for 2020, prudently at the same level as in 2019. The continuation of dividend payments during 2020 reflected the financial strength of the Group, its significant liquidity position and the longer term confidence in the performance of the business.

The Board continues to recognise the importance of returns to shareholders. Keller has consistently increased or maintained its dividend over the 26 years since first listing on the London Stock Exchange. The Board is recommending the payment of a 2020 final dividend of 23.3p per share (2019: 23.3p per share) to be paid on 25 June 2021 to shareholders on the register as at the close of business on 3 June 2021.

Employees

In the midst of a global pandemic, our employees have shown an exceptional level of resilience and commitment, with many making huge personal sacrifices, including being away from their homes and families for extended lengths of time, to work on our customer projects. I would like to thank every single employee for their commitment, hard work and determination in what was a very challenging year.

Our people are key and we continue to build on our culture where everyone at Keller has equal access to opportunities. We actively encourage all of our people to deliver exceptional performance and realise their full potential. Improving diversity, equity and inclusion remains a priority for us with the launch of our Inclusion Commitment with Conscious Leadership workshops held for the Board and Executive Committee. We piloted a five-step talent management programme to help leaders assess current talent and build capability for the future.

Prospects

The late cycle nature of our business makes us naturally cautious about the short-term economic impact of the global pandemic. Whilst we are proactively managing the business accordingly and despite the strong momentum at the end of 2020, our expectations for a reduced trading performance in 2021 are unchanged. With the considerable work done on rationalising our businesses and reorganising our divisions to focus on markets where we see greatest opportunity and have leading positions, we are confident that the Group is well positioned to exploit the recovery from any post-pandemic recessionary markets. The long-term fundamentals for Keller continue to be strong and the Group will benefit from the positive medium and long-term market trends of urbanisation and infrastructure growth.

Chief Executive Officer's review

Overview

Despite the pandemic, 2020 has been a strong year for Keller, operationally, financially and strategically. The way the Keller team has responded to the challenges of COVID-19 and their actions and commitment are evidenced by the strength of the Group's operational and financial performance during the year.

Whilst the Group's revenue decreased, driven by the impact of COVID-19 and the strategic exit of certain non-core businesses, underlying operating profit and operating margin both increased. This was a result of a strong operating performance in North America, the full-year benefit of the return to profitability in APAC and the initial benefits of the strategic actions we have taken. We have made significant strategic progress, implementing all the actions that we set out a year ago to reshape the business. We are progressively transforming the Group into a more efficient, 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.

At the beginning of the year, to add impetus to this critical agenda, we established a Safety Leadership Committee, consisting of the CEO, the Divisional Presidents and chaired by John Raine, the Group Head of Health and Safety. This committee has driven some key initiatives during the year and begun the process of sharing and setting minimum acceptable operating practices across the Group. These initiatives include the further development of the safety field app 'InSite', and the development and implementation of a cage design and operating standard. We also launched our new global incident management system, which has improved the reporting and analysis of both incidents and potential incidents.

We continue to make progress with strong, industry-leading performance. In 2020 we recorded a further 20% improvement in our accident frequency rate (AFR) with an all-time low of 0.12 injuries per 100,000 hours worked, and 9.5% improvement in total recordable incident rate (TRIR). Last year we identified critical injuries as an area of focus and we have seen a 35% reduction in these incidents from 17 in 2019 to 11 in 2020. In early 2021, a tragic fatality occurred following an accident on a site in Austria in which we lost a long-serving and valued employee. This brings into sharp focus the risks of the environment in which we operate and the need for perpetual vigilance. A thorough investigation is under way at this time.

We have a number of safety ambitions for next year and we will continue to leverage our experienced and knowledgeable safety resources across the Group.

In response to the identified additional operational challenges posed by the pandemic, a COVID-19 steering team was established under the leadership of Graeme Cook, Group Human Resources Director. The guidance and support we provided to our employees followed World Health Organization guidelines, supplemented by local authority guidance in the regions in which we operate. This approach enabled us to work in a safe and productive manner on sites wherever the local regulatory regime allowed, using applicable personal protective equipment and social distancing. However, I'm deeply saddened that as a Group we lost two employees due to COVID-19 related illness and our thoughts go to their families.

Financial performance

Group revenue was £2,062.5m, 10% down on the prior year, due to the impact of COVID-19 and the strategic exit of certain non-core businesses.

Underlying operating profit was £110.1m, an increase of 5% at constant currency, despite the impact of COVID-19. The benefit of a sustained and recovering margin in APAC, as well as an improving margin in North America following the reorganisation of the foundations business that became effective at the start of 2020, more than offset a decline in EMEA's performance, largely due to COVID-19. Underlying operating margin improved from 4.5% in 2019 to 5.3% in 2020, reflecting the implementation of our strategy to focus on higher-quality work.

Underlying diluted earnings per share increased by 18% to 96.3p per share (2019: 81.3p per share), driven by an increase in operating profit and a lower interest charge.

The continued focus on cash flow performance generated significant improvements in the year, resulting in the Group's net debt reducing by 43% to £120.9m (2019: £213.1m) equating to a net debt / EBITDA leverage ratio of 0.7x (2019: 1.2x) (on a bank covenant IAS 17 basis), comfortably within our recently lowered target range of 0.5x-1.5x and compared to our covenant limit of 3.0x.

At the outset of the pandemic the Group secured an investment grade £300m facility under the Covid Corporate Financing Facility (CCFF). We did not draw, and indeed did not ever expect to draw, on the CCFF. The CCFF was only secured to provide additional protection, in extremis, in the event of an unexpected and significant deterioration in market conditions and customer payment behaviours resulting in a very material deterioration in working capital performance. The Group had access to substantial borrowing facilities and retained a significant level of available liquidity throughout the year. At 31 December 2020, the Group had undrawn committed and uncommitted borrowing facilities totalling £672.6m (31 December 2019: £247.0m).

Our return on capital employed (ROCE) of 16.4% was above the 14.4% recorded in 2019, driven by both higher profitability and a more efficient capital base.

The Board decided that it would be appropriate to maintain the 2019 final dividend and declare an interim dividend for 2020, prudently at the same level as in 2019. The continuation of dividend payments during 2020 reflected the financial strength of the Group, its significant liquidity position and the longer-term confidence in the performance of the business.

The Board fully recognises the importance of dividends to shareholders and we have increased or maintained dividends every year, since the Group was listed in 1994, reflecting the strong cash generative nature of the Group. The Board is recommending the payment of a 2020 final dividend of 23.3p per share (2019: 23.3p per share) to be paid on 25 June 2021 to shareholders on the register as at the close of business on 3 June 2021.

Operating performance

We experienced a strong start to the year in the first quarter before market conditions deteriorated swiftly in late March as the national and regional COVID-19 restrictions took effect. We were impacted by site closures and travel restrictions both within markets and across countries. We proactively put in place a broad range of measures to reduce costs and manage our liquidity, including operating cost reductions, cancellation of discretionary projects, reduced capital expenditure and an even greater focus on our working capital management. During the second quarter we sought to minimise the potential financial and other risks arising from the crisis but to also maximise our flexibility to respond to an uncertain landscape. We accessed relevant governmental support schemes across our markets, including furlough in the UK and tax deferrals, where appropriate.

In the second half of the year, we saw the site access restrictions that were preventing us from working largely lifted and the effect of the pandemic principally evolved into logistical and border challenges. We also saw a general softening of order intake, although the order book remained robust.

Once the Board was satisfied that trading and outlook for the remainder of the year was likely to be resilient, the Board took the decision to reimburse the relatively small amount of support taken by way of the UK furlough (Job Retention Scheme grant), representing approximately 0.1% of our global employment costs.

On 1 January 2020 the reorganisation in our North America division became effective, integrating all of our foundations businesses in North America into one unified organisation, branded as Keller. The reorganisation has been very successful and we exceeded our 2020 target for the incremental revenue benefit of being able to offer all products and services across North America. We have also generated cost and efficiency savings at the top end of our guidance range of £4.5m to £6.0m per annum and significantly earlier than our 2022 target. In addition, the division benefitted from improved profitability from the recently restructured Canadian business and strong volume at Suncoast, the Group's post-tension business.

In EMEA we made good strategic progress, reducing our geographic presence, withdrawing from South America and rationalising Franki Africa into the new Middle East and Africa Business Unit. We also exited certain non-core business activities including Wannenwetsch in Germany and Colcrete Eurodrill in the UK. Trading across the region was mixed given the impact of COVID-19, with varying levels of activity by market. We benefitted from the completion of the oil refinery in Mexico and progress on the Sandbukta-Moss-Sastad (SMS2) rail project in Norway. The UK Business Unit, which represents less than 3% of overall Group revenue, benefitted from the High Speed Two (HS2) project where we have been engaged on the early contractor stage on two sections.

During 2020 all the businesses in the APAC division traded profitably throughout the year, despite COVID-19, reflecting the full-year performance benefits of the business restructuring and management changes that were completed in 2019.

Our newly formed Middle East and Africa Business Unit has combined with APAC, with effect from 1 January 2021, to create an Asia-Pacific, Middle East and Africa (AMEA) division. This brings together under one management team all of our businesses in developing geographies and which have similar market characteristics and customers, with a greater focus on large contracts, particularly in the resources sector.

The EMEA division has become our Europe division which, like the North America division, comprises of larger, more functionally self-sufficient business units that benefit from established market positions in sustainable markets. As a result of the rationalisation and simplification of EMEA, the more focused Europe division is in the process of reducing the size of its headquarters and will establish a divisional headquarters using a similar model to that already successfully implemented in the APAC division. As previously announced, the rightsizing of the Europe divisional headquarters gave rise to a non-underlying restructuring charge in 2020 and will reduce our operating costs from 2021 onwards.

Strategy

The Board refined the Group's corporate purpose during the year, to reflect both the evolution of our strategy and the changing environment in which we operate and **'building the foundations for a sustainable future'** will be at the heart of everything we do in the future.

Our vision **to be the leading provider of specialist geotechnical solutions** is unchanged and, despite the disruptive impact of the pandemic on change management activities, we have made good progress with our objective 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 focus on 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 will 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 will work to share best practice in operations, technical knowledge, governance and compliance.

Progress on strategic priorities for 2020

We have made strong progress strategically, implementing all the actions that we set out a year ago, and progressively transforming the Group into a more efficient, higher-quality business, focusing our resources on those markets and activities where customers value our skills and expertise, where we can achieve mutual benefits and deliver an appropriate level of financial return. Despite the impact of COVID-19, we have made good progress in the rationalisation of our geographic presence and exiting from certain non-core activities.

In North America, James Hind and his team successfully executed the reorganisation and rebranding of our foundations businesses, exceeding expected revenue benefits and achieving the cost and efficiency benefits ahead of time and at the higher end of the target range.

In EMEA, we exited South America and also completed the rationalisation of Franki Africa. We exited two further non-core businesses, Wannenwetsch, in Germany, and Colcrete Eurodrill, in the UK.

As announced in November 2020, our newly formed Middle East and Africa business has combined with APAC, effective 1 January 2021, to create an Asia-Pacific, Middle East and Africa (AMEA) division, led by Peter Wyton. The former EMEA division is now our Europe division, headed by Jim De Waele.

Strategic priorities for 2021

The strategic focus in 2020 has primarily been on the Group's structure, ensuring that we are present in the appropriate geographic markets, providing profitable services and developing the optimum organisation. Whilst there is a small element of restructuring left to complete, the main emphasis for 2021 will be to begin the long-term processes of improving operational performance and increasing market penetration.

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. The development of further commercial and financial improvements to our project performance management will be addressed by our CFO David Burke and its application to smaller-value projects will be the remit of Venu Raju, our Equipment and Operations Director.

The longer-term simplification, standardisation and systemisation of our global operating model will be undertaken by Eric Drooff, Operations Director North America, supported by Katrina Roche, Group CIO. This initiative will be progressively implemented across the Group's systems infrastructure, with the explicit goal of becoming more efficient in the medium term.

People

I am immensely proud of how our people responded to the many diverse challenges of the global pandemic. We acted quickly at the onset to protect our people whilst they continued to protect the business by continuing to safely deliver projects for our customers. Many of our employees went to extraordinary lengths to continue to deliver on projects for our customers, including moving their families across continents, and many others were apart from their loved ones for extended periods of time. I would like to acknowledge all of this endeavour and thank all of Keller's employees for their commitment, hard work and expertise during this exceptionally challenging year.

Outlook

Despite the pandemic, 2020 has been a strong year for Keller, operationally, financially and strategically. The way the

Keller team has responded to the challenges of COVID-19 and their actions and commitment, are evidenced by the strength of the Group's operational and financial performance during the year. We have also made significant strategic progress, implementing all the actions that we set out a year ago to reshape the business. We are progressively transforming the Group into a more efficient, more focused and higher-quality business with industry-leading margins, achieving both sustainable operational delivery and cash generation.

Notwithstanding the strong momentum at the end of 2020, our expectations for a reduced trading performance in 2021 are unchanged. As previously indicated, we saw a softening in the order intake during the second half of 2020 and into 2021 with overall trading in the early part of the year relatively subdued. This, together with the late cycle nature of our business and the continuing uncertainty arising from the pandemic and macroeconomic outlook, means that we remain suitably cautious about the year ahead. We therefore anticipate 2021 to be a more challenging year than 2020, particularly in the first half which was especially strong last year.

Nonetheless, our leading market positions and the strategic actions we have taken to improve the Group's performance, together with our financial resilience, will allow us to benefit from the longer-term structural growth drivers for global infrastructure and urbanisation in the years ahead. We therefore remain confident in our ability to deliver increasing shareholder returns through underlying profit growth and our progressive dividend policy.

Operating review

North America

	2020 £m	2019 £m	Constant currency
Revenue	**1,227.5**	1,333.9	-7.9%
Underlying operating profit	**83.2**	78.6	+5.8%
Underlying operating margin	**6.8%**	5.9%	
Order book[1]	**585.1**	574.5	+1.8%

[1] Comparative order book stated at constant currency

In North America, revenue decreased by 7.9%, on a constant currency basis, with a material slowdown in the second half in our foundations business driven by a COVID-19 related construction market downturn. This was partly offset by incremental revenue following the reorganisation of the foundations business that became effective from 1 January 2020, and revenue growth at Suncoast. Operating profit increased by 5.8% to £83.2m on an underlying basis, driven by operating efficiencies and cost reductions following the reorganisation of the foundations business, strong demand at Suncoast and the turnaround in Canada. The underlying operating margin increased to 6.8% from 5.9% in the prior year. Cash performance was particularly strong as a result of the underlying cash generative nature of the business and the settlement of aged claims. Our continued focus on safety saw our key metric, accident frequency rate fall from 0.11 in 2019 to 0.08 for 2020, a 27% improvement.

In 2020 the construction industry in the US grew 5%, driven by a 12% increase in residential construction. Non-residential construction was flat year-on-year overall, though down 3% in the second half. The Canadian construction market was down 4% year on year.

We benefitted from a strong start to the year following the continued momentum we experienced at the end of 2019 as well as the relatively mild winter which typically curtails activity in the first quarter. From the end of March, trading became more challenged due to the COVID-19 pandemic, when the ability to operate was to some extent subject to state restrictions and lockdowns. The business was quick to respond to the impact, putting in place a range of measures to reduce costs and manage liquidity. However, we began to see an increased impact on our foundations business in the second half, with a significant number of project starts postponed in addition to a material drop off in orders.

The division benefitted from the reorganisation of the foundations business that we announced in 2019 and became effective 1 January 2020. The objective of the reorganisation was to position the North American foundations businesses to return to growth through a combination of offering all products in all our North American markets, thereby increasing the size of the addressable market and at the same time reducing overheads and achieving better utilisation of equipment, yards and people. We are driving material incremental revenue and profit growth following improved operational efficiencies, despite the logistical impact of COVID-19. Following the reorganisation, we have won more than $80m of customer projects ($36m flowing through 2020 revenue) which would not have been won under the old structure. In addition, the cost and efficiency benefits achieved this year are at the top end of our £4.5m to £6m target range and were realised in 2020, significantly earlier than our 2022 target. We continue to identify areas of further efficiency. The costs of delivering the reorganisation were approximately £3.0m and were absorbed by the North America business through 2019 and 2020 as part of normal operating costs.

In the foundations business, the significant decrease in second half revenue resulted in flat year-on-year operating profit performance. However, the operating margin increased significantly as a result of the cost savings realised and the more efficient use of resources. The Speciality Services business experienced strong trading and has become the divisional lead for large, complex, multi-product projects. The South-East had a strong year, but the Mid-West continued to struggle in a difficult market. At the end of the year, we received a cash settlement for a further and final claim for the scope adjustment on the large long-term contract completed by Specialty Services, previously trading as Bencor.

Our Canadian business delivered an improved profit performance following a modest restructuring and a strengthening of the management team. The business has good momentum into 2021 and is helped by the establishment of a new base in Montreal in the fourth quarter of 2020.

Suncoast, the Group’s post-tension business serving mostly the residential construction market, performed strongly with revenue ahead of the prior year. The business delivered a significant increase in operating profit despite being negatively impacted in the latter part of the year by additional tariffs on imported steel strand, Suncoast’s main raw material. The additional tariffs and the recent increases in steel prices will impact margins in the near to medium term.

At Moretrench Industrial, our business which operates in the highly regulated industrial and power segments, revenue fell, mainly due to a relatively small restructuring. However, performance remained strong and operating profit margin increased whilst achieving an improved order book position.

The order book for North America at the period end remained strong at £585.1m, in line with the closing position at the end of 2019. However, as previously indicated, we saw a softening in our order intake in the second half of the year as well as deferrals of projects already in the order book which will impact 2021.

Europe, Middle East & Africa (EMEA)

	2020 £m	2019 £m	Constant currency
Revenue	**607.6**	679.6	-9.5%
Underlying operating profit	**20.9**	28.4	-28.4%
Underlying operating margin	**3.4%**	4.2%	
Order book[1]	**266.6**	287.3	-7.2%

[1] Comparative order book stated at constant currency

In EMEA, revenue decreased by 9.5% on a constant currency basis, with the majority of markets being impacted by COVID-19 shutdowns and other travel restrictions during the year. Our businesses in European markets were impacted earlier by COVID-19, however they recovered quicker than the businesses in the Middle East, Africa and Latin America. Underlying operating profit was £20.9m, down 28.4% on a constant currency basis, giving an underlying operating margin of 3.4% (2019: 4.2%). Revenue and profit were reduced in most EMEA markets, as a result of COVID-19, aside from Iberia and Latin America and North-East Europe.

Through a continued focus on safety, the accident frequency rate fell from 0.30 in 2019 to 0.21 for 2020, a 30% improvement. In early 2021, a tragic fatality occurred following an accident on a site in Austria in which we lost a long-serving and valued employee. This brings into sharp focus the risks of the environment in which we operate and the need for perpetual vigilance. A thorough investigation is underway at this time.

Our businesses in Central Europe, South-East Europe and Nordics and French Speaking Countries were all subject to reduced activity arising from COVID-19 related government lockdowns, as well as in-country and cross-border travel restrictions. As these restrictions eased, activity levels increased back to near normal levels by the year end.

The UK, representing 3% of overall Group revenue, started the year slowly with a continuation of the hesitant investment climate following the December 2019 general election, and ongoing Brexit uncertainty before COVID-19 shutdowns closed a large part of the construction sector from March onwards. The UK market recovered slower from the effects of COVID-19 than Continental Europe markets. During the year, test piling and early contractor works on two sections of HS2 were completed as well as instrumentation and monitoring activities on the London section. The main packages of work on C2/3 are expected to be awarded in the near term following the recent award of the C1 package in February 2021 at a value of c£84m.

Our business in North-East Europe, which was the least impacted by COVID-19 restrictions, benefitted from market momentum and cost-saving initiatives from the end of 2019 with strong revenue and profit growth as well as an improvement in margin. The Scandinavian region within our South-East Europe and Nordics business continues to grow, and benefitted from the Sandbukta-Moss-Sastad rail project (SMS2) in Norway. The Iberia and Latin America business also reported revenue and profit growth from the delivery of the oil refinery project in Mexico. During the period we completed the sale of our Brazil business, as part of the previously announced withdrawal from South America, which generated a non-underlying and largely non-cash loss on disposal of £9.2m.

The Middle East reported lower revenue and reduced profitability compared with last year, following completion of a number of larger oil and gas projects in 2019 and the travel restrictions across key markets in response to COVID-19.

Franki Africa returned to profit in the year, benefitting from a reduced cost base following recent restructuring activities and second half delivery at the previously announced liquefied natural gas (LNG) contract in Mozambique, which will continue through 2021. In June 2020 we announced the rationalisation of the Franki Africa business, retaining a small number of profitable operations which have been integrated into our Middle East-based operations, which share similar markets and dynamics, with effect from 1 January 2021.

As well as the Franki Africa restructuring and the South America exit there were a number of other initiatives during the year that streamlined the portfolio and rationalised the operational cost base. These included the sale of two non-core businesses, Wannenwetsch in Germany and Colcrete Eurodrill in the UK, in addition to restructuring in a number of other business units.

In November it was announced that from 1 January 2021 the MEA business would be transferred to the APAC division, creating the Africa, Middle East and Asia (AMEA) division, and the remaining EMEA division becoming Europe. The new Europe division is headed by Jim De Waele, as President, Europe, and Mark Hooper, as Chief Financial Officer, Europe; both appointments became effective from 1 January 2021.

A restructuring charge of £11.0m was reported relating to the rationalisation of operations in Europe, Middle East and Africa and the rightsizing of the Europe divisional head office.

The EMEA order book at the end of the period was £266.6m, down 7.2% on the prior year. Tendering levels were mixed during the second half of 2020 and there remains significant uncertainty regarding the impact on trading in 2021 in most of our markets.

Asia-Pacific (APAC)

	2020 £m	2019 £m	Constant currency
Revenue	**227.4**	287.0	-19.0%
Underlying operating profit	**13.0**	3.3	+320.3%
Underlying operating margin	**5.7%**	1.1%	
Order book[1]	**148.5**	169.3	-12.3%

[1] Comparative order book stated at constant currency

In Asia-Pacific, revenues decreased by 19.0% on a constant currency basis, partly as a consequence of the planned restructuring in 2019 in ASEAN and Waterway. On a like-for-like basis revenue decreased by 9.5%, primarily due to the effects of site closures related to COVID-19. Operating profit increased by 320.3% to £13.0m, as a result of the restructured business delivering profitable results across all business units. The accident frequency rate increased from 0.03 in 2019 to 0.06 for 2020, representing two lost time injuries in 2019 and four in 2020.

The COVID-19 pandemic impacted all geographies in the division, though markets were impacted by variable magnitude. Singapore experienced protracted site closures at the start of the pandemic with a slow return to activity following the national lockdown. In Australia, activity levels were less impacted, however travel restrictions made the movement of employees around the country very difficult or impossible. India was imposed with a shorter, strict country-wide lockdown at very short notice, giving the operational crews significant challenges. India returned to normal site activity earlier than other Asian markets. Management across the division responded very effectively to maintain operational activities where possible and to mitigate the personal and financial performance challenges. Many employees were forced to make personal sacrifices including long periods where they were unable to return home from sites due to the stringent lockdown rules.

ASEAN was the first Keller business to be impacted by local government actions taken in response to COVID-19 during early March. Restrictions were not materially eased in Singapore until August, with a continued impact on trading through the second half. Despite the reduction in revenue, ASEAN delivered a profit in the period, benefitting from the restructuring activity that was undertaken in 2019 that reduced costs and from a sizeable project claim settled during the period.

Austral had a strong performance in the year with prior year activity adversely impacted by two major cyclones and extensive flooding in the Pilbara region in Western Australia which affected a number of mining projects during the first half of 2019. Good progress was made on the major contract 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), with over half the project completed, and the balance to be completed in 2021.

Our Keller Australia business reported broadly flat revenues and profits, with a continued softness in some markets. Tendering remained strong over the period though, and new awards in November and December indicate some improvement in the market.

Following the abrupt country-wide lockdown in India in late March that stopped all our operations, activity had restarted by the end of June. Despite the lower revenue, margins held up well from a number of more profitable Ground Improvement contracts and a reduced overhead base.

Orders were materially down in the second and third quarters as customers were reluctant to commence contracts given the uncertainty of the COVID-19 impact. Reassuringly, orders strengthened later in the year and the tender activity gives us a certain degree of optimism for 2021.

The APAC order book at the end of the period was £148.5m, down 12.3% on the prior year. This was largely driven by delayed project awards due to COVID-19 related market caution, and the inclusion of the large Cape Lambert project award in 2019.

In November 2020 it was announced that our newly formed Middle East and Africa Business Unit would combine with APAC, with effect from 1 January 2021, to create an Asia-Pacific, Middle East and Africa (AMEA) division. This brings together under one management team all of our businesses in developing geographies that have similar market characteristics and customers, with a greater focus on large contracts, particularly in the resources sector.

Chief Financial Officer's review

This report comments on the key financial aspects of the Group's 2020 results.

	2020 £m	2019 £m
Revenue	**2,062.5**	2,300.5
Underlying operating profit[1]	**110.1**	103.8
Underlying operating profit %[1]	**5.3%**	4.5%
Non-underlying items	**(33.1)**	(29.7)
Statutory operating profit	**77.0**	74.1

1 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 on page 65.

Revenue split by geography

£m	**North America**	**EMEA**	**APAC**	**Total**
2020				
H1	**636.5**	**286.5**	**116.1**	**1,039.1**
H2	**591.0**	**321.1**	**111.3**	**1,023.4**
Total	**1,227.5**	**607.6**	**227.4**	**2,062.5**
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

	Revenue £m		**Underlying operating profit[2] £m**		**Underlying operating profit margin[2] %**	
Year ended	**2020**	2019	**2020**	2019	**2020**	2019
Division						
North America	**1,227.5**	1,333.9	**83.2**	78.6	**6.8%**	5.9%
EMEA	**607.6**	679.6	**20.9**	28.4	**3.4%**	4.2%
APAC	**227.4**	287.0	**13.0**	3.3	**5.7%**	1.1%
Central	**—**	—	**(7.0)**	(6.5)	**—**	—
Group	**2,062.5**	2,300.5	**110.1**	103.8	**5.3%**	4.5%

2 Details of non-underlying items are set out in note 8 of the consolidated financial statements.

Revenue

Revenue of £2,062.5m (2019: £2,300.5m) was 10.3% down on 2019, in large part reflecting the impact of site closures and lower market demand relating to COVID-19. At constant currency, revenue decreased by 9.7% and decreased across all three divisions. North America reported a decrease in revenue of 7.9% (at constant currency), with the majority of operations impacted by COVID-19, partly offset by incremental revenue from the reorganisation of the foundations business and revenue growth over prior year at Suncoast business serving mostly the residential construction market. EMEA revenue decreased by 9.5% (at constant currency) primarily as a result of COVID-19 related site closures. This was partially offset by positive revenue growth in North-East Europe and Iberia and Latin America. APAC activity was heavily impacted by COVID-19 related shutdowns in the majority of its markets. Revenue declined by 19.0% (at constant currency). Adjusting for the withdrawal from the heavy foundations market in Singapore and Malaysia during 2020 and the Waterway disposal in 2019, revenue in APAC decreased by 9.5% on a like-for-like basis.

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 3% of the Group's revenue. The top 10 customers represent 11% of the Group's revenue (2019: 7%). The Group worked on more than 6,000 projects in the year with 59% of contracts having a value between £25,000 and £250,000, demonstrating a low customer concentration and a wide project portfolio.

Underlying operating profit

The underlying operating profit of £110.1m was 6.1% up on prior year (2019: £103.8m), which on a constant currency basis, was 5.5% up, despite the revenue contraction.

North America underlying constant currency operating profit increased by 5.8% driven by improved margins from efficiencies and cost reductions realised from the reorganisation of the US foundations businesses, a strong performance at Suncoast and a turnaround in Canada. The impact of COVID-19 in terms of operational restrictions was greater in EMEA and APAC than in North America. EMEA constant currency operating profit decreased by 28.4%, reflecting the impact of reduced activity arising from COVID-19 related government lockdowns as well as cross-border travel restrictions. North-East Europe benefitted from market momentum and prior year savings initiatives and Iberia and Latin America benefitted from the delivery of the oil refinery project in Mexico, resulting in strong earnings growth in both businesses during the year. APAC constant currency operating profit increased by 320.3% in 2020, as a result of the restructured business delivering profitable results across all business units.

Share of post-tax results from joint ventures

The Group recognised a post-tax profit of £0.8m in the year (2019: £0.7m) from its share of the post-tax results from joint ventures. Dividends totalling £0.4m (2019: £1.1m) were received from joint ventures in the period.

Statutory operating profit

Statutory operating profit, comprising underlying operating profit of £110.1m (2019: £103.8m) and non-underlying items comprising net costs of £33.1m (2019: £29.7m net costs), increased by 3.9% to £77.0m (2019: £74.1m).

Net finance costs

Net finance costs decreased by 41.3% to £13.2m (2019: £22.5m). The average net borrowings, excluding IFRS 16 lease liabilities, during the year were £183.5m (2019: £392.1m). This reduction was achieved as a result of the cash generative nature of the business and consistent tight working capital management in the uncertain COVID-19 environment. Furthermore, the Group benefitted from the lower LIBOR rates throughout the year.

Taxation

The Group's underlying effective tax rate increased to 29% (2019: 28%), mainly as a result of the change in profit mix across the various tax jurisdictions in which we operate. Cash tax paid in the year of £24.9m was an increase of £12.6m over prior year. The prior year benefitted from a tax refund in the US which reduced net payments. Other differences are mainly due to the timing and phasing of tax payments which do not necessarily relate to the period in which the profits are earned. Further details on tax are set out in note 11 of the consolidated financial statements.

Non-underlying items

Details of non-underlying items are included in note 8 to the financial statements.

Amortisation of acquired intangibles
The £4.2m (2019: £4.3m) charge for amortisation of acquired intangible assets relates to the Moretrench and Austral acquisitions.

Non-underlying operating costs
Non-underlying operating costs were £29.6m (2019: £28.7m) and mainly consisted of exceptional restructuring costs of £16.6m and the £9.2m largely non-cash loss recorded on the disposal of the Group's Brazil business in April 2020. Within the year the Group also disposed of a non-core business in Germany, Wannenwetsch, for a loss of £0.9m and provisions of £1.5m were made for the Colcrete Eurodrill UK machinery manufacturing business which was disposed of in January 2021.

Total restructuring costs of £16.6m (2019: £7.2m) have been incurred during the year. Restructuring charges of £11.0m were incurred in EMEA relating to the strategic objective to rationalise operations in Europe, the Middle East and Africa and rightsize the divisional head office. In North America £5.5m was incurred during the year in respect of strategic restructuring activity undertaken. In APAC restructuring costs of £0.5m in India, Malaysia and Indonesia were partly offset by a credit of £0.4m on the reversal of restructuring charges made in the prior year relating to the ASEAN Heavy Foundations restructuring and the cessation of the Waterway business.

There was a £0.3m impairment charge made against the carrying value of goodwill in a small cash-generating unit in EMEA.

Non-underlying other operating income

Non-underlying other operating income was £0.7m in respect of proceeds received on settlement of a contributory claim relating to an exceptional contract dispute, first reported in 2014.

Non-underlying taxation

A non-underlying tax credit of £5.6m (2019: £7.5m charge) has been determined by assessing the tax impact of each component of the non-underlying loss. The tax charge on non-underlying losses in 2019 related primarily to a valuation allowance made against deferred tax assets on Australian tax losses as a consequence of the restructuring of the business. The 2020 tax credit on non-underlying items includes a partial re-recognition of Australian deferred tax assets of £1.9m as a result of the improved performance of the Australian business, and the benefit of a net tax credit on other non-underlying charges which are expected to be deductible for tax purposes.

Free cash flow

	2020 £m	2019[1] £m
Underlying operating profit	110.1	103.8
Depreciation and amortisation	94.9	94.6
Underlying EBITDA	**205.0**	**198.4**
Non-cash items	1.9	13.4
Dividends from joint ventures	0.4	1.1
Decrease/(increase) in working capital	38.2	(3.0)
Increase/(decrease) in provisions and retirement benefit liabilities	13.9	(10.9)
Net capital expenditure	(65.6)	(52.0)
Additions to right-of-use assets	(22.7)	(22.9)
Sale of other non-current assets	—	4.6
Free cash flow before interest and tax	**171.1**	**128.7**
Free cash flow before interest and tax to underlying operating profit	**155%**	**124%**
Net interest paid	(12.0)	(21.5)
Cash tax paid	(24.9)	(12.3)
Free cash flow	**134.2**	**94.9**
Dividends paid to shareholders	(25.9)	(26.3)
Acquisitions	—	2.1
Business disposals	2.2	—
Non-underlying items	(11.0)	0.4
Right-of-use assets / lease liability modifications	(1.1)	7.1
Foreign exchange movements	(1.1)	6.3
Movement in net debt	**97.3**	**84.5**
Opening net debt	**(289.8)**	**(286.2)**
Impact of adopting IFRS 16	**—**	**(88.1)**
Closing net debt	**(192.5)**	**(289.8)**

[1] Trade and other payables and provisions, retirement benefit and other non-current liabilities presented here do not correspond to the published 2019 consolidated financial statements. The comparative cash flow has been restated to reclassify contract provisions from other payables to provisions, as outlined in note 34 to the financial statements.

Earnings per share

Underlying diluted earnings per share increased by 18.5% to 96.3p (2019: 81.3p) driven by higher operating profit and a reduced interest charge in the year. Statutory diluted earnings per share was 58.5p (2019: 29.7p).

Dividend

The Board has recommended a final dividend of 23.3p per share (2019: 23.3p per share) which, following the interim dividend for 2020 of 12.6p (2019: 12.6p), brings the total dividend for the year to 35.9p (2019: 35.9p). The 2020 dividend earnings cover, before non-underlying items, was 2.7x (2019: 2.3x).

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. Reflecting the financial strength of the Group, its significant liquidity position and the longer-term confidence in the performance of the business the Board have decided to maintain the 2020 full-year dividend consistent with that declared in respect of 2019.

Keller Group plc has distributable reserves of £135.7m at 31 December 2020 that are available to support the dividend policy, which comfortably covers the proposed full-year dividend for 2020 of £16.8m. 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.

Acquisitions

There were no material acquisitions in the period.

Working capital

The £111.1m cash flow from decreased receivables and a £7.1m decrease in inventory during the year was partly offset by an £80.0m decrease in payables. Overall a strong working capital performance resulted in total net working capital decreasing by £38.2m in the year (2019: £3.0m increase).

Prior-year balance sheet reclassification

As a result of a reclassification of contract provisions from other payables to provisions and end of service scheme liabilities from provisions to retirement benefit liabilities within the classification of liabilities, the comparative consolidated balance sheet as at 31 December 2019 has been restated. The Group has increased provisions by £20.3m to reflect contract provisions with a corresponding reduction in other payables, and reduced provisions by £3.0m with a corresponding increase in retirement benefit liabilities.

Capital expenditure

The Group manages capital expenditure tightly whilst investing in the upgrade and replacement of equipment where appropriate. Net capital expenditure of £65.6m (2019: £52.0m) was net of proceeds from the sale of equipment of £7.4m (2019: £10.9m). The asset replacement ratio, which is calculated by dividing gross capital expenditure, excluding sales proceeds on disposal of items of property, plant and equipment and those assets capitalised under IFRS 16, by the depreciation charge on owned property, plant and equipment was 109% (2019: 91%).

Free cash flow

The Group's free cash flow of £134.2m (2019: £94.9m) is more than sufficient to fund, in cash terms, the full value of the payment in relation to the total 2020 dividend of £25.9m (2019: £26.3m). The basis of deriving free cash flow is set out on page 21.

Financing facilities and net debt

The Group's term debt and committed facilities principally comprise US private placements of $125m (£97.3m) which mature between 2021 and 2024 and a £375m multi-currency syndicated revolving credit facility, the maturity of which was extended during 2020 by one year to November 2025. At the year end, the Group had undrawn committed and uncommitted borrowing facilities totalling £672.6m.

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. Net debt to underlying EBITDA leverage, calculated excluding the impact of IFRS 16, was 0.7x (2019: 1.2x), well within the limit of 3.0x and at the lower end of the leverage target of between 0.5x-1.5x. Calculated on a statutory basis, including the impact of IFRS 16, net debt to EBITDA leverage was 0.9x at 31 December 2020 (2019: 1.5x). Underlying EBITDA, excluding the impact of IFRS 16, to net finance charges was 21.7x (2019: 9.4x), well above the limit of 4.0x.

On an IFRS 16 basis, year-end gearing was 47% (2019: 73%).

In June 2020 the Group increased borrowing facilities by a £300m Covid Corporate Financing Facility (CCFF) made available by the Bank of England. This facility has not been used to date and will not be drawn down before it is withdrawn on 23 March 2021.

The average month end net debt during 2020, excluding IFRS 16 lease liabilities, was £183.5m (2019: £327.9m) and the minimum headroom during the year on the Group's main banking facility was £129.4m (2019: £84.2m), in addition to a cash balance at that time of £80.8m (2019: £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.

At 31 December 2020 the Group had drawn upon uncommitted overdraft facilities of £4.7m (2019: £11.4m) and had drawn £167.5m of bank guarantee facilities (2019: £188.3m).

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 most recent actuarial valuation of the UK scheme was as at 5 April 2020, which recorded the market value of the scheme's assets at £49.7m and the scheme being 77% funded on an ongoing basis. The level of contributions are £2.7m a year with effect from 1 January 2021 and will increase by 3.6% per annum on 1 January going forward to 5 August 2024. Contributions will be reviewed following the next triennial actuarial valuation to be prepared as at 5 April 2023. The 2020 year-end IAS 19 valuation of the UK scheme showed assets of £58.0m, liabilities of £67.2m and a pre-tax deficit of £9.2m.

In Germany and Austria, the defined benefit arrangements only apply to certain employees who joined the Group before 1997. The IAS 19 valuation of the defined benefit obligation totalled £19.0m at 31 December 2020. 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.

The Group has a number of end of service schemes in the Middle East as required by local laws and regulations. The amount of benefit payable depends on the current salary of the employee and the number of years of service. These retirement obligations are funded on the Group's balance sheet and obligations are met as and when required by the Group. The IAS 19 valuation of the defined benefit obligation totalled £2.9m at 31 December 2020.

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:

	2020		2019	
	Closing	**Average**	Closing	Average
USD	**1.37**	**1.28**	1.33	1.28
CAD	**1.74**	**1.72**	1.72	1.70
EUR	**1.12**	**1.12**	1.18	1.14
SGD	**1.81**	**1.77**	1.78	1.74
AUD	**1.78**	**1.86**	1.89	1.84

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 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 its 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 2020 was 16.4% (2019: 14.4%).

Impact of Brexit

Following the end of the Brexit transitional period, there has been no material adverse impact on our UK operations, which represents less than 3% of the total revenue of the Group. The Group does not expect any sustained adverse impact on the Group's business performance.

Redefinition of business segments in 2021

With effect from 1 January 2021, the Middle East and Africa business has combined with APAC to create an Asia-Pacific, Middle East and Africa (AMEA) division and the remainder of the EMEA division has become our Europe division.

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. The important developments in managing our principal risks during 2020 and the key areas of focus for 2021 are set out in the Strategic report within the Group's Annual Report and Accounts.

Consolidated income statement

For the year ended 31 December 2020

		2020			2019		
		Underlying	**Non-underlying items (note 8)**	**Statutory**	Underlying	Non-underlying items (note 8)	Statutory
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	3,4	**2,062.5**	**—**	**2,062.5**	2,300.5	—	2,300.5
Operating costs	6	**(1,953.2)**	**(29.6)**	**(1,982.8)**	(2,197.4)	(28.7)	(2,226.1)
Amortisation of acquired intangible assets		**—**	**(4.2)**	**(4.2)**	—	(4.3)	(4.3)
Other operating income		**—**	**0.7**	**0.7**	—	3.3	3.3
Share of post-tax results of joint ventures	16	**0.8**	**—**	**0.8**	0.7	—	0.7
Operating profit/(loss)	3	**110.1**	**(33.1)**	**77.0**	103.8	(29.7)	74.1
Finance income	9	**1.1**	**—**	**1.1**	0.8	—	0.8
Finance costs	10	**(14.3)**	**—**	**(14.3)**	(23.3)	—	(23.3)
Profit/(loss) before taxation		**96.9**	**(33.1)**	**63.8**	81.3	(29.7)	51.6
Taxation	11	**(28.3)**	**5.6**	**(22.7)**	(22.4)	(7.5)	(29.9)
Profit/(loss) for the year		**68.6**	**(27.5)**	**41.1**	58.9	(37.2)	21.7
Attributable to:							
Equity holders of the parent		**70.0**	**(27.5)**	**42.5**	58.6	(37.2)	21.4
Non-controlling interests	33	**(1.4)**	**—**	**(1.4)**	0.3	—	0.3
		68.6	**(27.5)**	**41.1**	58.9	(37.2)	21.7
Earnings per share							
Basic	13	**97.1p**		**58.9p**	81.3p		29.7p
Diluted	13	**96.3p**		**58.5p**	81.3p		29.7p

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		**41.1**	21.7
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange movements on translation of foreign operations		**(5.9)**	(22.0)
Transfer of translation reserve on disposal of subsidiaries	5	**2.9**	—
Cash flow hedge gains taken to equity	25	**0.5**	—
Cash flow hedge transferred to income statement	25	**(0.5)**	—
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension schemes	32	**(2.2)**	(3.2)
Tax on remeasurements of defined benefit pension schemes	11	**0.4**	0.6
Other comprehensive loss for the year, net of tax		**(4.8)**	(24.6)
Total comprehensive income/(loss) for the year		**36.3**	(2.9)
Attributable to:			
Equity holders of the parent		**37.9**	(3.3)
Non-controlling interests		**(1.6)**	0.4
		36.3	(2.9)

Consolidated balance sheet

As at 31 December 2020

	Note	2020 £m	2019[1] £m
Assets			
Non-current assets			
Goodwill and intangible assets	14	**118.8**	124.7
Property, plant and equipment	15	**434.9**	460.6
Investments in joint ventures	16	**4.4**	3.8
Deferred tax assets	11	**10.3**	13.3
Other assets	17	**25.9**	22.3
		594.3	624.7
Current assets			
Inventories	18	**60.1**	70.6
Trade and other receivables	19	**503.9**	626.7
Current tax assets		**2.1**	4.2
Cash and cash equivalents	20	**66.3**	98.9
Assets held for sale	21	**8.7**	—
		641.1	800.4
Total assets	3	**1,235.4**	1,425.1
Liabilities			
Current liabilities			
Loans and borrowings	25	**(67.0)**	(41.0)
Current tax liabilities		**(17.1)**	(21.1)
Trade and other payables	22	**(381.7)**	(466.5)
Provisions	23	**(46.2)**	(28.6)
		(512.0)	(557.2)
Non-current liabilities			
Loans and borrowings	25	**(191.8)**	(347.7)
Retirement benefit liabilities	32	**(31.1)**	(30.7)
Deferred tax liabilities	11	**(21.3)**	(26.1)
Provisions	23	**(47.2)**	(46.4)
Other liabilities	24	**(22.0)**	(19.5)
		(313.4)	(470.4)
Total liabilities	3	**(825.4)**	(1,027.6)
Net assets	3	**410.0**	397.5
Equity			
Share capital	27	**7.3**	7.3
Share premium account		**38.1**	38.1
Capital redemption reserve	27	**7.6**	7.6
Translation reserve		**16.3**	19.1
Other reserve	27	**56.9**	56.9
Retained earnings		**280.1**	263.2
Equity attributable to equity holders of the parent		**406.3**	392.2
Non-controlling interests	33	**3.7**	5.3
Total equity		**410.0**	397.5

[1] Trade and other payables, provisions and retirement benefit liabilities presented here do not correspond to the published 2019 consolidated financial statements. The comparative balance sheet has been restated to reclassify contract provisions from other payables to provisions and end of service schemes in the Middle East from provisions to retirement benefit liabilities, as outlined in note 34 to the financial statements.

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 9 March 2021.

They were signed on its behalf by:

Michael Speakman
Chief Executive Officer

David Burke
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital (note 27) £m	Share premium account £m	Capital redemption reserve (note 27) £m	Translation reserve £m	Other reserve (note 27) £m	Hedging reserve (note 25) £m	Retained earnings £m	**Attributable to equity holders of the parent £m**	Non-controlling interests (note 33) £m	**Total equity £m**
At 1 January 2019	7.3	38.1	7.6	41.2	56.9	—	270.5	**421.6**	4.9	**426.5**
Profit for the year 2019	—	—	—	—	—	—	21.4	**21.4**	0.3	**21.7**
Other comprehensive income										
Exchange movements 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 and 1 January 2020	7.3	38.1	7.6	19.1	56.9	—	263.2	**392.2**	5.3	**397.5**
Profit/(loss) for the year 2020	—	—	—	—	—	—	42.5	**42.5**	(1.4)	**41.1**
Other comprehensive income										
Exchange movements on translation of foreign operations	—	—	—	(5.7)	—	—	—	**(5.7)**	(0.2)	**(5.9)**
Transfer of reserves on disposal of subsidiaries	—	—	—	2.9	—	—	—	**2.9**	—	**2.9**
Cash flow hedge gains taken to equity	—	—	—	—	—	0.5	—	**0.5**	—	**0.5**
Cash flow hedge transferred to income statement	—	—	—	—	—	(0.5)	—	**(0.5)**	—	**(0.5)**
Remeasurements of defined benefit pension schemes	—	—	—	—	—	—	(2.2)	**(2.2)**	—	**(2.2)**
Tax on remeasurements of defined benefit pension schemes	—	—	—	—	—	—	0.4	**0.4**	—	**0.4**
Other comprehensive loss for the year, net of tax	—	—	—	(2.8)	—	—	(1.8)	**(4.6)**	(0.2)	**(4.8)**
Total comprehensive (loss)/ income for the year	—	—	—	(2.8)	—	—	40.7	**37.9**	(1.6)	**36.3**
Dividends	—	—	—	—	—	—	(25.9)	**(25.9)**	—	**(25.9)**
Share-based payments	—	—	—	—	—	—	2.1	**2.1**	—	**2.1**
At 31 December 2020	**7.3**	**38.1**	**7.6**	**16.3**	**56.9**	**—**	**280.1**	**406.3**	**3.7**	**410.0**

Consolidated cash flow statement

For the year ended 31 December 2020

	Note	2020 £m	2019[1] £m
Cash flows from operating activities			
Profit before taxation		**63.8**	51.6
Non-underlying items	8	**33.1**	29.7
Finance income	9	**(1.1)**	(0.8)
Finance costs	10	**14.3**	23.3
Underlying operating profit	3	**110.1**	103.8
Depreciation of property, plant and equipment	15	**94.3**	94.0
Amortisation of intangible assets	14	**0.6**	0.6
Share of post-tax results of joint ventures	16	**(0.8)**	(0.7)
(Profit)/loss on sale of property, plant and equipment		**(0.6)**	2.2
Other non-cash movements		**1.8**	12.3
Foreign exchange losses/(gains)		**1.5**	(0.4)
Operating cash flows before movements in working capital and other underlying items		**206.9**	211.8
Decrease in inventories		**7.1**	6.2
Decrease/(increase) in trade and other receivables		**111.1**	(54.3)
(Decrease)/increase in trade and other payables		**(80.0)**	45.1
Increase/(decrease) in provisions, retirement benefit and other non-current liabilities		**13.9**	(10.9)
Cash generated from operations before non-underlying items		**259.0**	197.9
Cash inflows from non-underlying items: contract disputes		**0.7**	3.3
Cash outflows from non-underlying items: restructuring costs		**(11.7)**	(2.2)
Cash outflows from non-underlying items: acquisition costs		**—**	(0.7)
Cash generated from operations		**248.0**	198.3
Interest paid		**(8.8)**	(17.8)
Interest element of lease rental payments		**(3.8)**	(4.3)
Income tax paid		**(24.9)**	(12.3)
Net cash inflow from operating activities		**210.5**	163.9
Cash flows from investing activities			
Interest received		**0.6**	0.6
Proceeds from sale of property, plant and equipment		**7.4**	10.9
Proceeds from sale of other non-current assets	17	**—**	4.6
Proceeds on disposal of subsidiaries, net of cash disposed	5	**2.2**	—
Acquisition of subsidiaries, net of cash acquired		**—**	(0.6)
Cash received from escrow		**—**	2.7
Acquisition of property, plant and equipment	15	**(72.5)**	(62.2)
Acquisition of other intangible assets	14	**(0.5)**	(0.7)
Dividends received from joint ventures	16	**0.4**	1.1
Net cash outflow from investing activities		**(62.4)**	(43.6)
Cash flows from financing activities			
New borrowings		**10.4**	37.0
Repayment of borrowings		**(131.4)**	(118.6)
Cash flows from derivative instruments	25	**—**	(0.1)
Payment of lease liabilities		**(27.2)**	(23.9)
Dividends paid	12	**(25.9)**	(26.3)
Net cash outflow from financing activities		**(174.1)**	(131.9)
Net decrease in cash and cash equivalents		**(26.0)**	(11.6)
Cash and cash equivalents at beginning of year		**87.5**	103.7
Effect of exchange rate movements		**0.1**	(4.6)
Cash and cash equivalents at end of year	20	**61.6**	87.5

[1] Trade and other payables and provisions, retirement benefit and other non-current liabilities presented here do not correspond to the published 2019 consolidated financial statements. The comparative cash flow has been restated to reclassify contract provisions from other payables to provisions, as outlined in note 34 to the financial statements.

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 2020 were authorised for issue in accordance with the resolution of the Directors on 9 March 2021.

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 services. Information on the Group's structure is provided in note 9 of the company financial statements.

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

These financial statements do not constitute the company's statutory accounts for the years ended 31 December 2020 or 2019 but are derived from the 2020 accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies. Those for 2020 will be delivered to the Registrar of Companies and made available on the company's website at www.keller.com in April 2021. 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 an 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, expressed in millions to one decimal point, except when otherwise indicated.

In light of the COVID-19 global pandemic experienced in 2020, and subsequent global uncertainty, the Group has undertaken a detailed going concern and viability analysis and applied appropriate mitigating actions to ensure the protection of future profits and liquidity. While the operational activity of the Group in Q2 2020 was adversely impacted by site closures caused by government restrictions in response to COVID-19, travel restrictions and other actions necessary to ensure safe working practices, operational performance in the second half of the year was not impacted in the same way. The proactive measures taken by the Group in response to the disruptive effect of the pandemic have mitigated the impact on the financial performance of the Group. However further site closures, reduced construction activity, or the onset of a recession in any given market, gives rise to uncertainty in future near to mid-term financial performance.

As part of the viability review, management ran a series of downside scenarios on the latest forecast profit and cash flow projections to assess covenant headroom against available funding facilities for a three-year period to 31 December 2023. The going concern review used the same downside scenarios and forecasts for the period through to the end of March 2022, a period of at least 12 months from when the financial statements are authorised for issue. This process involved linking the Group's principal risks to potential pandemic or recessionary effects and included the following severe but plausible downside assumptions:

- Rapid downturn in the Group's markets resulting in up to a 10% decline in revenues.
- Ineffective execution of projects reducing profits by 1% of revenue.
- A combination of other principal risks materialising together reducing profits by up to £30m. These risks include unrecorded tax liabilities, costs of ethical misconduct and regulatory non-compliance, occurrence of an accident causing serious injury to an employee or member of the public and the cost of a product or solution failure.
- Deterioration of working capital performance by 5% of six months' sales.
- Inability to refinance £54m of borrowing facilities.

The financial and cash effects of these were modelled individually and in combination. The focus was on the ability to secure or retain future work and potential downward pressure on margins. Management applied sensitivities against projected revenue, margin and working capital metrics reflecting a series of plausible downside scenarios. Against the most negative scenario mitigating actions were overlaid, which included a range of cost-cutting measures and overhead savings designed to preserve cash flows. Even in the most extreme downside scenario modelled, which showed a reduction in full-year 2021 operating profit of approximately 59% compared with 2020, the adjusted projections do not show a breach of covenants in respect of available funding facilities or any liquidity shortfall. Consideration was given to scenarios where covenants would be breached and the circumstances giving rise to these scenarios were considered extreme and remote. This process allowed the Board to conclude that the Group will continue to operate on a going concern basis for at least the next 12 months. Accordingly, the consolidated financial statements are prepared on a going concern basis.

At 31 December 2020, the Group had undrawn committed and uncommitted borrowing facilities, including the funds available under the Bank of England Covid Corporate Financing Facility, totalling £672.6m, comprising £296.7m of the unutilised portion of the revolving credit facility, £19.5m of other undrawn committed borrowing facilities and undrawn uncommitted borrowing facilities of £359.4m, as well as cash of £66.3m. At 31 December 2020 the Group's net debt to underlying EBITDA ratio (calculated on an IAS 17 covenant basis) was 0.7x, well within the limit of 3.0x.

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 expense 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

At the date of authorisation of these financial statements, the following amendments have become applicable for the current period:

- Amendments to IFRS 7, IFRS 9 and IAS 39 'Interest Rate Benchmark Reform'
- Amendments to IAS 1 and IAS 8 'Definition of Material'

These amendments have a limited 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.

Amendments to IFRS 7, IFRS 9 and IAS 39 'Interest Rate Benchmark Reform' (IBOR*)*

In September 2019 the IASB issued the first accounting amendment to IFRS 9, IFRS 7 and IAS 39 related to the upcoming IBOR reform and to address the impact that the current uncertainty could have when applying specific hedge accounting requirements on applicable hedge relationships. In particular, the amendment provides temporary relief to allow hedge accounting to continue during the transition period before IBOR- based hedged items or instruments are amended as a result of the reform being completed.

The impact of IBOR reform on the Group is assessed as being limited, with this amendment only applicable to one hedge relationship as at 31 December 2020. The following table sets out the extent of the risk exposure associated with managing the fixed rate on the US Private Placement (USPP) expiring in December 2024.

Hedging instrument	Notional £m	Carrying value Asset £m	Carrying value Liability £m	Interest rate benchmark	Hedged item	Hedge relationship
Interest rate swaps	**14.4**	**6.2**	**—**	US LIBOR	USPP	Fair value hedge

In August 2020 the IASB also issued Phase 2 amendments which are effective from 1 January 2021. The Group is not early adopting these amendments as the current hedge relationship is continuing and no amendments have been made to the hedged item and/or hedging instruments in the 2020 financial year.

Amendments to IAS 1 and IAS 8 'Definition of Material'

The amendments provide a new definition of material that states, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements, nor is there expected to be any future impact to the Group.

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 movements arising on translation for consolidation are recognised in other comprehensive income (OCI). 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	**2020**	2019
US dollar	**1.28**	1.28
Canadian dollar	**1.72**	1.70
Euro	**1.12**	1.14
Singapore dollar	**1.77**	1.74
Australian dollar	**1.86**	1.84

Year end rates	**2020**	2019
US dollar	**1.37**	1.33
Canadian dollar	**1.74**	1.72
Euro	**1.12**	1.18
Singapore dollar	**1.81**	1.78
Australian dollar	**1.78**	1.89

Revenue from contracts with customers

The Group's operations involve the provision of specialist geotechnical 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 effects 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 contract, and that loss is probable, full provision is made based on the unavoidable costs of fulfilling the contract, 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. Retentions are recognised on invoicing of the associated trade receivable. 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 America 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 at a point in time by reference to the date in which the goods are installed and/or accepted by the customer.

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 or deferred tax liabilities.

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 OCI, in which case the related deferred tax is also dealt with in equity or in OCI.

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 schemes, and also makes payments into defined contribution schemes.

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 OCI in full in the period in which they occur. Payments to defined contribution schemes are accounted for on an accruals basis. The Group has long service arrangements in certain overseas countries. These are accounted for in accordance with IAS 19 'Employee Benefits' and accounting follows the same principles as for a defined benefit scheme.

Government subsidies

In an attempt to mitigate the impact of the COVID-19 pandemic, government bodies in many countries introduced measures to aid companies. These measures included direct subsidies and deferral of tax payments. The Group was in receipt of direct subsidies from governments in a number of countries and was eligible for deferral of the employer's share of Social Security taxes in the United States. COVID-19 related subsidies are recognised when there is reasonable assurance the subsidy will be received. Where the subsidy related to an expense item, it has been recognised in the consolidated income statement as an offset against the expense for which it is was intended to compensate.

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 for 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 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

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 assets

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 as follows:

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

Right-of-use assets are tested for impairment in accordance with IAS 36 'Impairment of Assets'.

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 an expense in the period in 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 is determined by taking into 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 1.6% to 35.1%.

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 26 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 asset 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:

Licences	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 and other intangibles 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.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets that are classified as held for sale are not depreciated.

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 provisioning 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 bank 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 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

Provisions have been made for insurance liabilities retained in the Group's captive insurance arrangements, legal claims, restructuring and employee commitments. These are recognised as the best estimate of the expenditure required to settle the Group's liability. Details of provisions are set out in note 23.

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 and the amount of the obligation can be estimated reliably.

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 of the employee services received in exchange for the grant of share options is recognised as an expense, calculated using appropriate option pricing models. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions, with a corresponding increase in retained earnings. The charge is adjusted to reflect expected actual levels of options vesting due to on-market conditions.

Segmental reporting

During the year the Group comprised 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 and disposals.

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.

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.

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. These contracts can still be subject to claims and variations resulting in an adjustment to the revenue recognised. 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 6,000 contracts during 2020, at an average revenue of approximately £350,000 and a typical range of between £25,000 and £10m in value. The majority of contracts were completed in the 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, which may impact the contract asset or liability recorded in the balance sheet. 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.

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. Refer to note 14 for further information.

Deferred tax assets

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. Refer to note 11 for further information.

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. Refer to note 23 for further information.

3 Segmental analysis

During the year the Group was managed as three geographical divisions and has only one major product or service: specialist geotechnical services.

This is reflected in the Group's management structure and in the segment information reviewed by the Chief Operating Decision Maker.

	2020		2019	
	Revenue	**Operating profit**	Revenue	Operating profit
	£m	**£m**	£m	£m
North America	**1,227.5**	**83.2**	1,333.9	78.6
Europe, Middle East and Africa	**607.6**	**20.9**	679.6	28.4
Asia-Pacific	**227.4**	**13.0**	287.0	3.3
	2,062.5	**117.1**	2,300.5	110.3
Central items	**—**	**(7.0)**	—	(6.5)
Underlying	**2,062.5**	**110.1**	2,300.5	103.8
Non-underlying items (note 8)	**—**	**(33.1)**	—	(29.7)
	2,062.5	**77.0**	2,300.5	74.1

	2020					
	Segment assets	**Segment liabilities**	**Capital employed**	**Capital additions**	**Depreciation[2] and amortisation**	**Tangible[3] and intangible assets**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
North America	**670.3**	**(208.3)**	**462.0**	**26.9**	**47.7**	**304.0**
Europe, Middle East and Africa	**319.4**	**(210.5)**	**108.9**	**30.1**	**32.7**	**171.9**
Asia-Pacific	**165.3**	**(70.6)**	**94.7**	**16.0**	**13.9**	**77.2**
	1,155.0	**(489.4)**	**665.6**	**73.0**	**94.3**	**553.1**
Central items[1]	**80.4**	**(336.0)**	**(255.6)**	**—**	**0.6**	**0.6**
	1,235.4	**(825.4)**	**410.0**	**73.0**	**94.9**	**553.7**

	2019					
	Segment assets £m	Segment liabilities £m	Capital employed £m	Capital additions £m	Depreciation[2] and amortisation £m	Tangible[3] and 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[1]	109.7	(467.3)	(357.6)	—	0.4	1.1
	1,425.1	(1,027.6)	397.5	62.9	94.6	585.3

1 Central items include net debt and tax balances, which are managed by the Group.
2 Depreciation and amortisation excludes amortisation of acquired intangible assets.
3 Tangible and intangible assets comprise goodwill, intangible assets and property, plant and equipment.

Revenue analysed by country:

	2020 £m	2019 £m
United States	**1,112.0**	1,224.2
Australia	**158.9**	160.1
Germany	**116.9**	128.7
Canada	**113.3**	109.7
United Kingdom	**59.1**	66.5
Other	**502.3**	611.3
	2,062.5	2,300.5

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 2020			Year ended 31 December 2019		
	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[1] recognised on performance obligations satisfied at a point in time £m	Total revenue £m
North America	**944.0**	**283.5**	**1,227.5**	1,065.5	268.4	1,333.9
Europe, Middle East and Africa	**607.6**	**—**	**607.6**	679.6	—	679.6
Asia-Pacific	**227.4**	**—**	**227.4**	287.0	—	287.0
	1,779.0	**283.5**	**2,062.5**	2,032.1	268.4	2,300.5

1 During the year it was identified that all Suncoast revenue is recognised based on performance conditions satisfied at a point in time and so amounts misclassified in 2019 (£134.6m) have been represented to reflect the accounting treatment.

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 2020 from performance obligations satisfied in previous periods is £21.5m (2019: £6.6m).

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 2020, the total order book is £1,000.2m (2019: £1,042.6m).

The order book for contracts with a total duration over one year is £295.8m (2019: £219.3m). Revenue on these contracts is expected to be recognised as follows:

	2020 £m	2019 £m
Less than one year	**185.0**	159.8
One to two years	**99.8**	41.7
More than two years	**11.0**	17.8
	295.8	219.3

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

	2020	2019
	£m	£m
Trade receivables	**393.4**	483.9
Contract assets	**71.3**	102.1
Contract liabilities	**(43.9)**	(42.0)

Retentions are recognised on invoicing of the associated trade receivable. Included in the trade receivables balance is £97.7m (2019: £112.5m) in respect of these retentions. Of this amount, £87.5m (2019: £80.1m) is anticipated to be invoiced within one year with the remaining balance of £10.2m (2019: £32.4m) anticipated to be invoiced in more than one year. All contract assets and liabilities are current.

Significant changes in the contract assets and liabilities during the year are as follows:

	2020		2019	
	Contract assets	Contract liabilities	Contract assets	Contract liabilities
	£m	£m	£m	£m
As at 1 January	**102.1**	**(42.0)**	106.3	(41.4)
Revenue recognised in the current year	**597.1**	**619.2**	651.1	508.6
Disposal of subsidiaries	**(2.4)**	**0.5**	—	—
Amounts transferred to trade receivables	**(624.3)**	**—**	(650.8)	—
Cash received/invoices raised for performance obligations not yet satisfied	**—**	**(623.1)**	—	(511.7)
Exchange movements	**(1.2)**	**1.5**	(4.5)	2.5
As at 31 December	**71.3**	**(43.9)**	102.1	(42.0)

5 Disposals

On 6 April 2020, the Group disposed of its Brazil operation, being 100% of the issued share capital of Keller Tecnogeo Fundacoes Ltda, for a cash consideration received of £0.5m (BRL3.0m). Additional consideration of £0.9m (BRL6.5m) was received in September. On 11 September 2020, the Group disposed of Wannenwetsch GmbH, a non-core business in Germany, for a cash consideration received of £2.4m (EUR2.6m). The loss on these disposals is analysed below:

	Tecnogeo	Wannenwetsch
	£m	£m
Proceeds	**1.4**	**2.4**
Cash disposed	**(0.6)**	**(0.4)**
Disposal costs	**(0.1)**	**(0.5)**
Net disposal proceeds	**0.7**	**1.5**
Net assets disposed excluding cash (see below)	**(7.0)**	**(2.4)**
Currency translation losses transferred from translation reserve	**(2.9)**	**—**
Non-underlying loss on disposal	**(9.2)**	**(0.9)**

	Tecnogeo	Wannenwetsch
	£m	£m
Non-current assets	**3.0**	**2.0**
Inventories	**1.9**	**0.7**
Trade and other receivables	**5.3**	**1.4**
Trade and other payables	**(3.4)**	**(1.5)**
Other net assets/(liabilities)	**0.2**	**(0.2)**
Net assets disposed excluding cash	**7.0**	**2.4**

The results for the period are presented below. The 2020 results represent activity prior to the sale.

	Tecnogeo		Wannenwetsch	
	2020	2019	2020	2019
	£m	£m	£m	£m
Revenue	**4.3**	23.6	**5.6**	6.6
Operating costs	**(3.9)**	(23.0)	**(4.6)**	(6.7)
Operating profit	**0.4**	0.6	**1.0**	(0.1)

The non-underlying loss on disposals during the year also includes £1.5m in relation to the Colcrete Eurodrill business, a UK machinery manufacturer. This comprised a loss on sale of the Eurodrill assets during the year of £1.1m and £0.4m of provisions in relation to the sale of the Colcrete business which was completed in January 2021.

6 Operating costs

	Note	**2020 £m**	2019 £m
Raw materials and consumables		**597.7**	699.0
Staff costs	7	**572.4**	598.2
Other operating charges		**549.8**	657.7
Amortisation of intangible assets	14	**0.6**	0.6
Expenses relating to short-term leases and leases of low-value assets		**138.4**	147.9
Depreciation:			
Owned property, plant and equipment	15a	**66.3**	68.4
Right-of-use assets	15b	**28.0**	25.6
Underlying operating costs		**1,953.2**	2,197.4
Non-underlying items	8	**29.6**	28.7
Statutory operating costs		**1,982.8**	2,226.1
Other operating charges include:			
Redundancy and other reorganisation costs		**0.2**	1.9
Fees payable to the company's auditor for the audit of the company's Annual Report and Accounts		**0.9**	0.5
Fees payable to the company's auditor for other services:			
The audit of the company's subsidiaries, pursuant to legislation		**1.7**	1.5
Other assurance services		**0.1**	0.1

During the year, the Group received £5.6m of direct subsidies with respect to COVID-19 related aid measures introduced by government bodies in various countries. These subsidies are recognised as an offset against the expense item which they are intended to compensate.

7 Employees

The aggregate staff costs of the Group were:

	2020 £m	2019 £m
Wages and salaries	**498.1**	518.1
Social security costs	**59.7**	66.2
Other pension costs	**12.2**	13.1
Share-based payments	**2.4**	0.8
	572.4	598.2

These costs include Directors' remuneration. Fees payable to Non-executive Directors totalled £0.5m (2019: £0.5m).

In the United States, the Coronavirus Aid, Relief, and Economic Security Act allows employers to defer the payment of the employer's share of social security taxes otherwise required to be paid between 27 March and 31 December 2020. The payment of the deferred taxes is required in two instalments; the first half is due 31 December 2021 and the remainder by 31 December 2022. At 31 December 2020 the amount deferred is £8.5m.

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

	2020 Number	2019 Number
North America	**4,305**	4,424
Europe, Middle East and Africa	**3,657**	4,535
Asia-Pacific	**1,347**	1,533
	9,309	10,492

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:

	2020 **£m**	2019 £m
Exceptional restructuring costs	**16.6**	7.2
Loss on disposal of operations	**11.6**	—
Contingent consideration: additional amounts provided	**0.8**	—
Acquisition costs	**0.3**	1.3
Goodwill impairment	**0.3**	20.2
Non-underlying items in operating costs	**29.6**	28.7
Amortisation of acquired intangible assets	**4.2**	4.3
Exceptional contract dispute	**(0.7)**	(3.3)
Non-underlying items in other operating income	**(0.7)**	(3.3)
Total non-underlying items in operating profit	**33.1**	29.7
Non-underlying finance costs	**—**	—
Total non-underlying items before taxation	**33.1**	29.7

In Europe, Middle East and Africa (EMEA) restructuring costs of £11.0m were incurred during the year. These costs arose as a consequence of the strategic project to rationalise the EMEA division by exiting markets considered not sustainable, disposing of non-core businesses and reducing the cost base within the division. As part of this rationalisation, the Middle East and Africa business units are to merge to form Middle East and Africa and management responsibility of the combined business unit will be transferred from EMEA to Asia-Pacific with effect from 1 January 2021. The resultant EMEA structure will be termed 'Europe'. The restructuring costs during the year comprised redundancy costs, property costs, asset impairments and costs of market exit which include project termination costs.

In North America total restructuring costs of £5.5m were incurred during the period. In Canada costs relate to the decision to exit the Prairies region; these comprised redundancy and other restructuring costs of £0.5m and asset write-downs of £1.4m. Following a specific market rationalisation exercise in the US, affecting local markets in the Central, Southeast and Midwest regions, restructuring costs of £1.8m have been incurred in respect of redundancy and other property costs. An exercise was carried out to assess the carrying value of assets in light of market conditions, resulting in write-downs of £1.8m.

In Asia-Pacific there was a net charge of £0.1m during the period. In Waterway there was a restructuring provision release of £0.4m, offset by restructuring costs in India, Malaysia and Indonesia. In the previous year Asia-Pacific net restructuring costs were £4.8m, comprising a £7.7m charge recorded in Waterway which was offset by a restructuring provision release in ASEAN.

Additional contingent consideration provided relates to the acquisition of the Geo Instruments US business in 2017.

A net loss on disposal of £11.6m was recognised during the year; comprising a loss of £9.2m on the disposal of the Group's Brazil operation, a £1.5m loss in relation to the Colcrete Eurodrill business, a UK machinery manufacturer, and a £0.9m loss on the disposal of Wannenwetsch GmbH, a non-core business in Germany. Refer to note 5 for further details.

Acquisition costs of £0.3m 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 (2019: £1.3m).

The goodwill impairment relates to the Genco business in Egypt; due to a downward revision to the medium-term forecast the forward projections did not fully support the carrying value of goodwill. The previous year's impairment relates to the Canadian business.

Amortisation of acquired intangible assets relates to the Moretrench and Austral acquisitions.

During the year £0.7m of proceeds were received on final settlement of a contributory claim relating to an exceptional contract dispute, first reported in 2014. The proceeds received in 2019 are in respect of the same contract dispute.

9 Finance income

	2020 **£m**	2019 £m
Bank and other interest receivable	**0.3**	0.6
Other finance income	**0.8**	0.2
	1.1	0.8

10 Finance costs

	2020 £m	2019 £m
Interest payable on bank loans and overdrafts	**4.9**	11.1
Interest payable on other loans	**2.4**	3.8
Interest on lease liabilities	**3.8**	4.3
Net pension interest cost	**0.3**	0.5
Other interest costs	**1.6**	3.4
Total interest costs	**13.0**	23.1
Unwinding of discount and effect of changes in discount rate on provisions	**1.3**	0.2
Total finance costs	**14.3**	23.3

11 Taxation

	2020 £m	2019 £m
Current tax expense:		
Current year	**24.3**	25.6
Prior years	**(0.8)**	(0.9)
Total current tax	**23.5**	24.7
Deferred tax expense:		
Current year	**(1.2)**	7.4
Prior years	**0.4**	(2.2)
Total deferred tax	**(0.8)**	5.2
	22.7	29.9

UK corporation tax is calculated at 19% (2019: 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% (2019: 19%) as follows:

	2020			2019		
	Underlying £m	**Non-underlying items (note 8) £m**	**Statutory £m**	Underlying £m	Non-underlying items (note 8) £m	Statutory £m
Profit/(loss) before tax	**96.9**	**(33.1)**	**63.8**	81.3	(29.7)	51.6
UK corporation tax charge/(credit) at 19% (2019: 19%)	**18.4**	**(6.3)**	**12.1**	15.4	(5.6)	9.8
Tax charged at rates other than 19% (2019: 19%)	**5.6**	**(0.8)**	**4.8**	1.4	(1.8)	(0.4)
Tax losses and other deductible temporary differences not recognised	**6.5**	**1.6**	**8.1**	8.5	14.7	23.2
Utilisation of tax losses and other deductible temporary differences previously unrecognised	**(1.9)**	**(1.3)**	**(3.2)**	(2.4)	—	(2.4)
Permanent differences	**(0.2)**	**2.3**	**2.1**	1.3	0.2	1.5
Adjustments to tax charge in respect of previous periods	**0.2**	**(0.6)**	**(0.4)**	(3.1)	—	(3.1)
Other	**(0.3)**	**(0.5)**	**(0.8)**	1.3	—	1.3
Tax charge/(credit)	**28.3**	**(5.6)**	**22.7**	22.4	7.5	29.9
Effective tax rate	**29.2%**	**16.9%**	**35.6%**	27.6%	(25.3)%	57.9%

The tax charge of £7.5m on non-underlying losses in 2019 related primarily to a valuation allowance made against deferred tax assets on Australian tax losses as a consequence on the restructuring of the business. The 2020 tax credit of £5.6m on non-underlying items includes a partial re-recognition of Australian deferred tax assets of £1.9m as a result of the improved performance of the Australian business, and the benefit of a net tax credit on other non-underlying charges which are expected to be deductible for tax purposes.

The Group is subject to taxation in over 40 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 managing enquiries from the UK tax authorities in relation to the matter 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 as on the basis of professional advice received the Group believes that the original filing position will ultimately be agreed. 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 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 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 movements	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 and 1 January 2020	(14.6)	35.8	(2.6)	(5.9)	(4.7)	4.8	**12.8**
Charge/(credit) to the income statement	4.1	(0.8)	0.1	(0.8)	(1.9)	(1.5)	**(0.8)**
Credit to other comprehensive income	—	—	(0.4)	—	—	—	**(0.4)**
Exchange movements	(0.2)	(0.6)	(0.1)	0.2	0.3	—	**(0.4)**
Other reallocations/transfers	(0.2)	—	(1.0)	—	0.1	0.9	**(0.2)**
At 31 December 2020	**(10.9)**	**34.4**	**(4.0)**	**(6.5)**	**(6.2)**	**4.2**	**11.0**

Deferred tax assets include amounts of £10.4m (2019: £13.3m) 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 (£4.2m), UK (£3.0m) and Australia (£2.0m). The amount of profits in each territory which are necessary to be realised over the forecast period to support these assets are £16m, £16m and £7m respectively. Canadian tax rules currently allow tax losses to be carried forward up to 20 years, UK and Australian tax rules currently allow tax losses to be carried forward indefinitely. The recovery of deferred tax assets has been assessed by reviewing the likely timing and level of future taxable profits. The period assessed for recovery of assets is appropriate for each territory having regard to the specific facts and circumstances and the probability of achieving forecast profitability. A 10% shortfall in expected profits would have a proportional impact on the value of the deferred tax assets recoverable.

The following is the analysis of the deferred tax balances:

	2020 £m	2019 £m
Deferred tax liabilities	**21.3**	26.1
Deferred tax assets	**(10.3)**	(13.3)
	11.0	12.8

At the balance sheet date, the Group had unused tax losses of £146.4m (2019: £142.3m), 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, £85.2m (2019: £78.2m) 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 £24.7m (2019: £29.7m).

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 £118.4m (2019: £58.4m), on the basis that the Group can control the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The unprovided deferred tax liability in respect of these timing differences is £7.4m (2019: £2.0m).

12 Dividends payable to equity holders of the parent

Ordinary dividends on equity shares:

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2019 of 23.3p (2018: 23.9p) per share	**16.8**	17.2
Interim dividend for the year ended 31 December 2020 of 12.6p (2019: 12.6p) per share	**9.1**	9.1
	25.9	26.3

The Board has recommended a final dividend for the year ended 31 December 2020 of £16.8m, representing 23.3p (2019: 23.3p) per share. The proposed dividend is subject to approval by shareholders at the AGM on 19 May 2021 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 the equity holders of the parent	
	2020	2019	**2020**	2019
Basic and diluted earnings (£m)	**70.0**	58.6	**42.5**	21.4
Weighted average number of ordinary shares (m)[1]				
Basic number of ordinary shares outstanding	**72.1**	72.1	**72.1**	72.1
Effect of dilution from:				
Share options and awards	**0.6**	—	**0.6**	—
Diluted number of ordinary shares outstanding	**72.7**	72.1	**72.7**	72.1
Earnings per share				
Basic earnings per share (p)	**97.1**	81.3	**58.9**	29.7
Diluted earnings per share (p)	**96.3**	81.3	**58.5**	29.7

[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 2019	235.0	60.1	23.8	**318.9**
Additions	—	—	0.7	**0.7**
Exchange movements	(6.4)	(1.1)	(1.1)	**(8.6)**
At 31 December 2019 and 1 January 2020	228.6	59.0	23.4	**311.0**
Additions	—	—	0.5	**0.5**
Disposal of subsidiaries (note 5)	(7.2)	—	—	**(7.2)**
Exchange movements	(1.8)	(0.1)	(0.6)	**(2.5)**
At 31 December 2020	**219.6**	**58.9**	**23.3**	**301.8**
Accumulated amortisation and impairment				
At 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 movements	(2.5)	(0.7)	(1.1)	**(4.3)**
At 31 December 2019 and 1 January 2020	111.8	52.4	22.1	**186.3**
Impairment charge for the year	0.3	—	—	**0.3**
Amortisation charge for the year	—	4.2	0.6	**4.8**
Disposal of subsidiaries (note 5)	(7.2)	—	—	**(7.2)**
Exchange movements	(0.5)	(0.1)	(0.6)	**(1.2)**
At 31 December 2020	**104.4**	**56.5**	**22.1**	**183.0**
Carrying amount				
At 1 January 2019	140.9	11.3	1.2	**153.4**
At 31 December 2019 and 1 January 2020	116.8	6.6	1.3	**124.7**
At 31 December 2020	**115.2**	**2.4**	**1.2**	**118.8**

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

For the purposes of impairment testing, goodwill has been allocated to nine separate cash-generating units (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 95% of the total (2019: 94%). 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:

		2020			2019		
CGU	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	**44.4**	**13.0**	**2.0**	44.7	13.6	2.0
Suncoast	North America	**31.4**	**13.3**	**2.0**	32.3	13.7	2.0
Keller Canada	North America	**12.8**	**12.6**	**2.0**	13.0	14.6	2.0
Keller Limited	Europe, Middle East and Africa	**12.1**	**12.7**	**3.0**	12.1	12.2	3.0
Austral	Asia-Pacific	**7.6**	**14.2**	**2.0**	7.2	13.1	3.0
Other[1]	Europe, Middle East and Africa	**6.9**			7.5		
		115.2			116.8		

[1] Pre-tax discount rates and forecast growth rates are defined by market.

The recoverable amount of the goodwill allocated to each CGU has been calculated on a value-in-use basis. The calculations 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 a diverse geographical set of 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, the growth rates and 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. Revenue and operating margins are prepared as part of the Group's three-year forecast in line with the Group's annual business planning process. The Group's budget for 2021 and financial projections for 2022 and 2023 were approved by the Board, and have been used as the basis for input into the value-in-use calculation. The budget and financial projections have been prepared in light of the current economic environment, which include the projected impact of COVID-19.

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. A margin for historical forecasting error has also been factored into the value-in-use model. Cash flows beyond 2023 which are deemed to be on a continuing basis 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 growth rates used in the Group's value-in-use calculation into perpetuity are based on forecasted growth in the construction sector in each region where a CGU is located and adjusted for longer-term compound annual growth rates for each CGU as estimated by management. 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.

The goodwill in Genco (included in 'other' above) was fully impaired by £0.3m during 2020. In 2019 Keller Canada goodwill was impaired by £20.2m. For the remaining CGUs, management believes that any reasonable 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 of the following goodwill balances:

CGU	Geographical segment	Increase in[1] discount rate	Reduction in[1] future growth rate	Reduction in final year cash flow %
Keller US	North America	21.7	19.6	67.5
Suncoast	North America	72.7	135.0	102.5
Keller Canada	North America	1.8	1.7	15.5
Keller Limited	Europe, Middle East and Africa	11.2	16.6	69.1
Austral	Asia-Pacific	7.0	6.7	39.6

[1] The increase in discount rate and reduction in future growth rate are presented in gross movements.

15 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	Note	**2020** £m	2019[1] £m
Property, plant and equipment – owned	15a	**365.4**	384.7
Right-of-use assets – leased	15b	**69.5**	75.9
At 31 December		**434.9**	460.6

[1] In 2019, £1.9m of legacy finance leases were reclassified from owned property, plant and equipment to right-of-use assets.

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 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)	**—**
Reclassification of right-of-use assets under legacy finance leases	—	(1.9)	—	**(1.9)**
Exchange movements	(3.4)	(38.4)	(0.3)	**(42.1)**
At 31 December 2019 and 1 January 2020	70.7	880.4	9.6	**960.7**
Additions	2.2	67.9	2.4	**72.5**
Disposals	(1.5)	(37.5)	(0.7)	**(39.7)**
Transfers to held for sale (note 21)	(0.5)	(23.3)	—	**(23.8)**
Disposal of subsidiaries (note 5)	(2.3)	(12.2)	—	**(14.5)**
Reclassification	—	4.3	(4.3)	**—**
Exchange movements	0.3	(0.9)	0.3	**(0.3)**
At 31 December 2020	**68.9**	**878.7**	**7.3**	**954.9**
Accumulated depreciation and impairment				
At 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 movements	(0.8)	(25.2)	—	**(26.0)**
At 31 December 2019 and 1 January 2020	20.9	555.1	—	**576.0**
Charge for the year	2.2	64.1	—	**66.3**
Disposals	(0.2)	(32.7)	—	**(32.9)**
Transfers to held for sale (note 21)	(0.5)	(15.4)	—	**(15.9)**
Disposal of subsidiaries (note 5)	(1.2)	(9.2)	—	**(10.4)**
Impairments	0.1	6.5	—	**6.6**
Exchange movements	0.1	(0.3)	—	**(0.2)**
At 31 December 2020	**21.4**	**568.1**	**—**	**589.5**
Carrying amount				
At 1 January 2019	51.3	360.9	9.8	**422.0**
At 31 December 2019 and 1 January 2020	49.8	325.3	9.6	**384.7**
At 31 December 2020	**47.5**	**310.6**	**7.3**	**365.4**

The Group had contractual commitments for the acquisition of property, plant and equipment of £7.5m (2019: £5.0m) at the balance sheet date. These amounts were not included in the balance sheet at the year end.

Impairments in the year include write-down of surplus equipment to current market values where it is not being relocated to other more active parts of the Group. The combined carry amount of these assets was £11.4m, compared to a market value of £4.8m, which resulted in an impairment charge in the year of £6.6m. Details of restructuring are set out in note 8.

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 15 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 12 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)**
Contract modifications	(5.8)	(1.3)	**(7.1)**
Exchange movements	(2.3)	(1.2)	**(3.5)**
Reclassification of right-of-use assets under legacy finance leases	—	1.9	**1.9**
At 31 December 2019 and 1 January 2020	47.4	28.5	**75.9**
Additions	8.4	14.3	**22.7**
Depreciation expense	(13.4)	(14.6)	**(28.0)**
Impairment expense	(0.7)	—	**(0.7)**
Contract modifications	1.3	(0.8)	**0.5**
Exchange movements	(0.8)	(0.1)	**(0.9)**
At 31 December 2020	42.2	27.3	**69.5**

The carrying amounts of lease liabilities (included within note 25 within loans and borrowings) and the movements during the year are set out in note 26.

16 Investments in joint ventures

	£m
At 1 January 2020	**3.8**
Share of post-tax results	**0.8**
Dividends received	**(0.4)**
Exchange movements	**0.2**
At 31 December 2020	**4.4**

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

The Group's investment in joint ventures relates to a 50% interest in the ordinary shares of KFS Finland Oy, an entity incorporated in Finland. Please refer to note 9 of the company accounts for the registered address.

Aggregate amounts relating to joint ventures:

	2020 £m	2019 £m
Revenue	**17.3**	16.7
Operating costs	**(16.4)**	(15.9)
Operating profit	**0.9**	0.8
Finance costs	**—**	—
Profit before taxation	**0.9**	0.8
Taxation	**(0.1)**	(0.1)
Share of post-tax results	**0.8**	0.7

	2020 £m	2019 £m
Non-current assets	**5.0**	4.2
Current assets	**2.6**	4.1
Current liabilities	**(1.8)**	(2.9)
Non-current liabilities	**(1.4)**	(1.6)
Share of net assets	**4.4**	3.8

17 Other non-current assets

	2020 £m	2019 £m
Fair value of derivative financial instruments	**5.4**	3.4
Non-qualifying deferred compensation plan assets	**18.3**	17.1
Other assets	**2.2**	1.8
	25.9	22.3

A non-qualifying deferred compensation plan (NQ) is available to US employees, whereby an element of eligible employee bonuses and salary are deferred over a period of four to six years. The plan allows participants to receive tax relief for contributions beyond the limits of the tax-free amounts allowed per the 401k defined contribution pension plan. The plan is administered by a professional investment provider with participants able to select their investments from an approved listing. An amount equal to each participant's compensation deferral is transferred into a trust and invested in various marketable securities. The related trust assets are not identical to investments held on behalf of the employee but are invested in similar funds with the objective that performance of the assets closely tracks the liabilities. The investments held in the trust are designated solely for the purpose of paying benefits under the non-qualified deferred compensation plan. The investments in the trust would however be available to all unsecured general creditors in the event of insolvency.

The value of both the employee investments and those held in trust by the company are measured using Level 1 inputs per IFRS 13 ('quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date') based on published market prices at the end of the period. Adjustments to the fair value are recorded within net finance costs in the consolidated income statement.

At 31 December 2020 non-current assets in relation to the investments held in the trust were £18.3m (2019: £17.1m). The fair value movement on these assets was £2.2m (2019: £3.6m). During the period proceeds from the sale of NQ-related investments were £nil (2019: £4.6m). At 31 December 2020 non-current liabilities in relation to the participant investments were £14.7m (2019: £16.4m). These are accounted for under IFRS 9 as financial liabilities at fair value through profit or loss. The fair value movement on these liabilities was £2.7m (2019: £3.5m). During the year £1.2m (2019: £0.9m) compensation was deferred.

18 Inventories

	2020 £m	2019 £m
Raw materials and consumables	**41.3**	53.0
Work in progress	**0.3**	0.7
Finished goods	**18.5**	16.9
	60.1	70.6

During 2020, £3.8m (2019: £2.1m) of inventory write-downs were recognised as an expense in the consolidated income statement.

19 Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**393.4**	483.9
Contract assets	**71.3**	102.1
Other receivables	**21.2**	26.6
Fair value of derivative financial instruments	**0.8**	—
Prepayments	**17.2**	14.1
	503.9	626.7

Trade receivables and contract assets included in the balance sheet are shown net of expected credit loss provisions. Expected credit losses are recognised initially on recognition of a receivable or if the likelihood of default is reasonably possible. The initial provision is made for each category of receivables with similar risks, based on historical experience and adjusted for the effects of expected or actual changes in customer risk, economic risk and performance expected in the next 12 months. Provisions made on the likelihood of default are based on the present value of cash shortfalls.

The movement in the provision held against trade receivables and contract assets (including expected credit losses) is as follows:

	2020 £m	2019 £m
At 1 January	**38.1**	44.5
Used during the year	**(6.3)**	(8.6)
Additional provisions	**23.6**	17.4
Unused amounts reversed	**(12.1)**	(13.3)
Disposal of subsidiaries	**(0.7)**	—
Exchange movements	**0.3**	(1.9)
At 31 December	**42.9**	38.1

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

	2020 £m	2019 £m
Overdue by less than 30 days	**65.9**	91.7
Overdue by between 31 and 90 days	**31.0**	45.2
Overdue by more than 90 days	**25.9**	43.7
	122.8	180.6

20 Cash and cash equivalents

	2020 £m	2019 £m
Bank balances	**64.2**	95.0
Short-term deposits	**2.1**	3.9
Cash and cash equivalents in the balance sheet	**66.3**	98.9
Bank overdrafts	**(4.7)**	(11.4)
Cash and cash equivalents in the cash flow statement	**61.6**	87.5

21 Assets held for sale

	2020 £m	2019 £m
Plant, machinery and vehicles	**7.9**	—
Inventories	**0.3**	—
Trade receivables	**0.5**	—
	8.7	—

Assets held for sale include plant, machinery and vehicles in Waterway as a result of the wind-down of the business. At the year end there was a binding agreement to sell the Colcrete business which completed in January 2021. Assets include plant, machinery and vehicles, inventories and trade receivables. Also included are plant and machinery in Franki Africa and North America as a result of the restructuring activities detailed in note 8.

22 Trade and other payables

	2020 £m	2019[1] £m
Trade payables	**169.3**	291.5
Other taxes and social security payable	**23.0**	15.8
Other payables	**97.3**	72.3
Contract liabilities	**43.9**	42.0
Accruals	**47.7**	44.9
Fair value of derivative financial instruments	**0.5**	—
	381.7	466.5

[1] Other payables presented here do not correspond to the published 2019 consolidated financial statements as a result of restating the comparative balance to reclassify contract provisions from other payables to provisions as outlined in note 34 to the financial statements.

23 Provisions

	Employee provisions £m	Restructuring provisions £m	Contract provisions £m	Insurance and legal provisions £m	Other provisions £m	**Total £m**
At 31 December 2019[1]	9.1	3.4	20.3	32.7	9.5	**75.0**
Reclassification between categories	1.1	—	4.1	—	(5.2)	**—**
Charge for the year	5.7	4.2	24.8	20.0	2.7	**57.4**
Used during the year	(4.5)	(1.4)	(8.9)	(11.5)	(1.0)	**(27.3)**
Unused amounts reversed	(1.4)	(0.6)	(4.0)	(3.0)	(2.3)	**(11.3)**
Unwinding of discount and changes in discount rate	(0.5)	—	—	1.3	—	**0.8**
Exchange movements	(0.2)	—	(1.0)	—	—	**(1.2)**
At 31 December 2020	9.3	5.6	35.3	39.5	3.7	**93.4**

To be settled within one year	1.7	5.6	23.2	12.6	3.1	**46.2**
To be settled after one year	7.6	—	12.1	26.9	0.6	**47.2**
At 31 December 2020	9.3	5.6	35.3	39.5	3.7	**93.4**

[1] Opening provisions presented here do not correspond to the published 2019 consolidated financial statements as a result of restating the comparative balance to reclassify contract provisions from other payables to provisions and end of service schemes from provisions to retirement benefit liabilities as outlined in note 34 to the financial statements.

Employee provisions

Employee provisions relate to the workers' compensation scheme in North America. The liability is based on estimated settlements for known and anticipated claims as identified. In Australia, a liability is recognised for benefits accruing to employees in respect of long service leave. Employee provisions also include provision for social security contributions on share options.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring, has raised a valid expectation in those individuals affected and liabilities have been identified. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

The restructuring provisions relate primarily to the relevant activities in the Europe, Middle East and Africa division with amounts also included for activities in Asia-Pacific. Refer to note 8 for further details. The provisions include amounts for redundancy costs, onerous lease contracts and other property-related costs. Estimates may differ from the actual charges depending on the finalisation of redundancy amounts and lease exit terms. These provisions are expected to be utilised within the next year.

Contract provisions

Contract provisions include loss provisions on contracts where the forecast costs of completing the contract exceed the revenue. Provision is made in full when such losses are foreseen, based on the unavoidable costs of fulfilling the contract. Also included are provision for contractual claims not yet settled and amounts related to contractual disputes. Given the Group's wide project portfolio and low customer concentration this balance is typically not sensitive to individual project performance.

Insurance and legal provisions

Insurance and legal provisions mainly reflect contractual claims against the Group that are retained within the Group's captive insurer ('the captive'). The captive covers both public liability and professional indemnity claims for the Group. The captive covers liabilities below an upper limit above which third party insurance applies.

The captive provides in respect of specific claims across the Group. At 31 December 2020 these were £12.8m (2019: £7.3m). These are recognised when insurance coverage is confirmed and the amount of the claim can be reliably estimated. Provisions are utilised as insurance claims are settled, which may take a number of years.

The captive also makes provisions in respect of claims incurred but not reported (IBNR). At 31 December 2020 these were £14.0m (2019: £18.6m). The IBNR is subject to an independent actuarial review which considers past claims experience and the risk profile of the Group. The assumptions are reviewed periodically and are intended to provide a best estimate of the most likely or expected outcome.

The present value of insurance provisions is determined by discounting the estimated future cash outflows using the yields of high-quality corporate bonds that are denominated in the currency in which the claims will be paid. Given the stable risk profile of the Group, reasonably possible changes in assumptions are not considered likely to have a material impact on total insurance provisions held.

Insurance and legal provisions also includes the uninsured portion of claims covered under local insurance policies and other legal-related costs.

Other provisions

Other provisions are in respect of dilapidation and other operational provisions.

24 Other non-current liabilities

	2020	2019
	£m	£m
Non-qualifying compensation plan liabilities	**14.8**	16.4
Other liabilities	**7.2**	3.1
	22.0	19.5

Other liabilities include contingent consideration of £2.2m (2019: £2.4m). Refer to note 17 for further information on the non-qualifying deferred compensation plan.

25 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 and South African rand.

The Group manages its currency flows to minimise transaction exchange risk. Forward contracts 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 2020, the fair value of foreign exchange forward contracts outstanding was £0.5m (2019: £nil) 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 2020, approximately 97% (2019: 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 and its diversity, both geographically and in terms of end markets. No individual customer represented more than 3% of revenue in 2020. 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.

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 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 2025. 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 £385.3m (2019: £87.8m). These include £300m available under the Bank of England Covid Corporate Financing Facility which expire on 23 March 2021.

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 2020 was £97.3m (2019: £97.2m).

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 2020 was £6.2m (2019: £3.4m). £5.4m (2019: £3.4m) is included in other non-current assets and £0.8m (2019: £nil) is included in trade and other receivables. There was no derivative liability included in non-current liabilities in 2020 (2019: £nil). The effective portion of the changes in the fair value of the 2014 swaps gave rise to a gain of £2.8m (2019: gain of £3.3m), 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

	2020 **£m**	2019 £m
Financial assets measured at fair value through profit or loss		
Non-qualifying deferred compensation plan	**18.3**	17.1
Interest rate swaps	**6.2**	3.4
Financial assets measured at amortised cost		
Trade receivables	**393.4**	483.9
Contract assets	**71.3**	102.1
Cash and cash equivalents	**66.3**	98.9
Financial liabilities at fair value through profit or loss		
Forward exchange contracts	**(0.5)**	—
Contingent consideration	**(3.0)**	(2.4)
Financial liabilities measured at amortised cost		
Trade payables	**(169.3)**	(291.5)
Contract liabilities	**(43.9)**	(42.0)
Loans and borrowings	**(185.0)**	(310.3)
Lease liabilities	**(73.8)**	(78.4)

Effective interest rates and maturity analysis

In respect of financial liabilities, the following table indicates their effective interest rates and undiscounted contractual cash flows at the balance sheet date:

	2020						
	Effective interest rate %	**Due within 1 year £m**	**Due within 1-2 years £m**	**Due within 2-5 years £m**	**Due after more than 5 years £m**	**Total £m**	**Carrying amount as show in the balance sheet £m**
Bank loans and overdrafts	**2.1**	**4.9**	**—**	**80.1**	**0.5**	**85.5**	**85.3**
Bonds and other loans	**1.6**	**40.6**	**4.5**	**59.3**	**—**	**104.4**	**99.7**
Lease liabilities	**—**	**27.4**	**18.7**	**24.7**	**11.1**	**81.9**	**73.8**
Contract liabilities	**—**	**43.9**	**—**	**—**	**—**	**43.9**	**43.9**
Trade payables	**—**	**169.2**	**—**	**—**	**—**	**169.2**	**169.2**
Contingent consideration	**—**	**0.8**	**2.2**	**—**	**—**	**3.0**	**3.0**
		286.8	**25.4**	**164.1**	**11.6**	**487.9**	**474.9**

	2019						
	Effective interest rate %	Due within 1 year £m	Due within 1-2 years £m	Due within 2-5 years £m	Due after more than 5 years £m	Total £m	Carrying amount as show in the balance sheet £m
Bank loans and overdrafts	3.1	14.8	—	192.3	2.5	209.6	209.1
Bonds and other loans	3.5	4.3	41.8	67.2	—	113.3	101.2
Lease liabilities	—	27.5	20.8	29.5	10.0	87.8	78.4
Contract liabilities	—	42.0	—	—	—	42.0	42.0
Trade payables	—	291.5	—	—	—	291.5	291.5
Contingent consideration	—	—	2.4	—	—	2.4	2.4
		380.1	65.0	289.0	12.5	746.6	724.6

Loans and borrowings analysis

	2020 £m	2019 £m
$75m private placement (due December 2024)	**60.0**	59.3
$50m private placement (due October 2021)	**37.3**	37.9
£375m syndicated revolving credit facility (expiring November 2025)	**78.3**	192.0
Bank overdrafts	**4.7**	11.4
Other bank borrowings	**2.3**	5.7
Other loans	**2.4**	4.0
Lease liabilities (note 26)	**73.8**	78.4
Total loans and borrowings	**258.8**	388.7

The Group has substantial borrowing facilities available to it. The undrawn committed facilities available at 31 December 2020 amounted to £313.2m (2019: £205.0m). This mainly comprised the unutilised portion of the Group's £375m revolving credit facility which expires on 23 November 2025. In addition, the Group had undrawn uncommitted borrowing facilities totalling £359.4m at 31 December 2020 (2019: £42.0m). This includes £300m available under the Bank of England Covid Corporate Financing Facility which can be drawn upon until 23 March 2021. Other uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time. Facilities totalling £4.0m (2019: £4.6m) are secured against certain assets. Future obligations under finance leases on a former IAS 17 basis totalled £2.2m (2019: £1.7m), including interest of £nil (2019: £nil).

Changes in loans and borrowings were as follows:

	2019 £m	Cash flows £m	Other[1] £m	New leases £m	Foreign exchange movements £m	Fair value changes £m	**2020 £m**
Bank overdrafts	(11.4)	6.7	—	—	—	—	**(4.7)**
Bank loans	(197.7)	119.5	—	—	(2.4)	—	**(80.6)**
Other loans	(101.2)	1.5	—	—	2.8	(2.8)	**(99.7)**
Lease liabilities (note 26)	(78.4)	27.2	(0.9)	(22.5)	0.8	—	**(73.8)**
Total loans and borrowings	(388.7)	154.9	(0.9)	(22.5)	1.2	(2.8)	**(258.8)**
Derivative financial instruments	3.4	—	—	—	—	2.3	**5.7**

[1] Other comprises disposals and contract modifications.

Cash flow hedges

The Group held the following instruments to hedge exposures to changes in foreign currency rates (2019: none).

	2020							
	Maturity			Carrying amount			Change in fair value used for calculating hedge ineffectiveness	Nominal amount
	< 1 year	1-2 years	2-5 years	>5 years	Asset	Liability[1]		
	£m	£m	£m	£m	£m	£m	£m	$m
Forward exchange contracts	**(0.5)**	**—**	**—**	**—**	**—**	**(0.5)**	**—**	**25.0**

[1] Included within other liabilities.

Fair value hedges

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

	2020							
	Maturity			Carrying amount			Change in fair value used for calculating hedge ineffectiveness	Nominal[2] amount
	<1 year	1-2 years	2-5 years	>5 years	Asset[1]	Liability		
	£m	£m	£m	£m	£m	£m	£m	$m
Interest rate swaps	**0.8**	**—**	**5.4**	**—**	**6.2**	**—**	**—**	**14.4**

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

	2019							
	Maturity			Carrying amount			Change in fair value used for calculating hedge ineffectiveness	Nominal[2] Amount
	<1 year	1-2 years	2-5 years	>5 years	Asset[1]	Liability		
	£m	£m	£m	£m	£m	£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%.

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

	2020			2019		
	Carrying[1] amount liability	Change in fair value used for calculating hedge ineffectiveness	Hedge[2] ineffectiveness in profit or loss	Carrying[1] amount liability	Change in fair value used for calculating hedge ineffectiveness	Hedge[2] ineffectiveness in profit or loss
	£m	£m	£m	£m	£m	£m
$125m private placements	**(97.3)**	**—**	**—**	(97.2)	—	—
Fair value hedge adjustments	**2.8**	**—**	**—**	3.3	—	—

[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 £213.2m (2019: £333.5m) 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 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 2020.

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

	2020	2019
	£m	£m
At 1 January	**2.4**	2.8
Additional amounts provided (note 8)	**0.8**	—
Paid during the year	**—**	(0.3)
Exchange movements	**(0.2)**	(0.1)
At 31 December	**3.0**	2.4

In 2020, £0.8m (2019: £nil) of the contingent consideration in respect of acquisitions is payable in one year. This relates to earn out payable in respect of the Geo Instruments acquisition in 2017. £2.2m (2019: £2.4m) is payable between one and two years. This amount is dependent on the forecast outcome of one project.

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.

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:

			2020			
	GBP	**USD**	**EUR**	**CAD**	**Other[1]**	**Total**
Weighted average fixed debt interest rate (%)	**—**	**—**	**1.3**	**—**	**8.4**	**—**
Weighted average fixed debt period (years)	**—**	**—**	**4.6**	**—**	**1.4**	**—**

	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed rate financial liabilities	**—**	**—**	**(2.6)**	**—**	**(2.1)**	**(4.7)**
Floating rate financial liabilities	**(43.5)**	**(97.3)**	**(12.3)**	**(5.2)**	**(22.0)**	**(180.3)**
Lease liabilities	**(1.2)**	**(46.4)**	**(12.2)**	**(3.5)**	**(10.5)**	**(73.8)**
Financial assets	**3.7**	**9.7**	**10.1**	**1.8**	**41.0**	**66.3**
Net debt	**(41.0)**	**(134.0)**	**(17.0)**	**(6.9)**	**6.4**	**(192.5)**

			2019			
	GBP	USD	EUR	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)	(119.9)	(14.9)	(47.4)	(82.6)	(301.8)
Lease liabilities	(2.3)	(49.5)	(11.0)	(5.5)	(10.1)	(78.4)
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)

[1] Included within other floating rate financial liabilities are AUD revolver loans of £5.8m (2019: £35.5m), ZAR revolver loans of £12.6m (2019: £11.0m), SGD revolver loans £nil (2019: £9.6m) and AED revolver loans £nil (2019: £13.7m). Included within other financial assets are AUD cash balances of £1.5m (2019: £10.8m), ZAR cash balances of £4.4m (2019: £2.3m) and SGD cash balances of £2.3m (2019: £1.7m).

Sensitivity analysis

At 31 December 2020, 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 £1.1m (2019: £2.1m).

It is estimated that a general increase of 10 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 £12.0m for the year ended 31 December 2020 (2019: £10.4m), with the estimated impact of a 10 percentage points decrease in the value of sterling being an increase of £14.6m (2019: £12.7m) 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.

26 Lease liabilities

Set out below are the carrying amounts of lease liabilities (included within note 25 within loans and borrowings) and the movements during the year:

	2020 **£m**	2019 £m
At 1 January	**78.4**	88.1
Additions	**22.5**	22.9
Contract modifications	**0.3**	(7.1)
Interest expense	**3.8**	4.3
Payments	**(30.2)**	(27.9)
Reclassification of legacy finance leases	**—**	1.7
Foreign exchange movements	**(1.0)**	(3.6)
At 31 December	**73.8**	78.4
Current	**24.8**	27.3
Non-current	**49.0**	51.1

27 Share capital and reserves

	2020 **£m**	2019 £m
Allotted, called up and fully paid equity share capital:		
73,099,735 ordinary shares of 10p each (2019: 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.

As at 31 December 2020 the total number of shares held in treasury was 889,733 (2019: 1,029,451).

28 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:

	2020 **£m**	2019 £m
Short-term employee benefits	**8.3**	5.4
Post-employment benefits	**0.4**	0.4
Termination payments	**0.4**	0.2
	9.1	6.0

Other related party transactions

As at the year end there was a net balance of £0.1m owed by (2019: £0.2m owed to) the joint venture. These amounts are unsecured, have no fixed date of repayment and are repayable on demand.

29 Commitments

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred was £7.5m (2019: £5.0m) and relates to property, plant and equipment purchases.

30 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 2020, the Group had outstanding standby letters of credit and surety bonds for the Group's captive insurance arrangements totalling £25.4m (2019: £28.8m).

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.

31 Share-based payments

The Group operates a Long Term Incentive Plan ('Plan').

Outstanding awards are as follows:

	Number
Outstanding at 1 January 2019	1,639,717
Granted during 2019	1,078,438
Lapsed during 2019	(617,474)
Exercised during 2019	(10,404)
Outstanding at 31 December 2019 and 1 January 2020	**2,090,277**
Granted during 2020	**788,062**
Lapsed during 2020	**(662,030)**
Exercised during 2020	**(152,899)**
Outstanding at 31 December 2020	**2,063,410**
Exercisable at 1 January 2019	—
Exercisable at 31 December 2019 and 1 January 2020	—
Exercisable at 31 December 2020	**—**

The average share price during the year was 651.0p (2019: 615.9p).

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:

	2020	2019
Share price at grant	**720.0p**	625.0p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**39.1%**	30.8%
Expected life	**3 years**	3 years
Risk-free rate	**0.11%**	0.84%
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 £2.4m (2019: £0.8m) related to equity-settled, share-based payment transactions.

The weighted average fair value of options granted in the year was 695.5p (2019: 582.2p).

32 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 2020), the Group has agreed to pay annual contributions of £2.7m, to increase by 3.6% per annum, until 5 August 2024, subject to a review of the level of employer contributions at the next actuarial review in 2023.

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 2020. On 20 November 2020, there was an updated judgement requiring an allowance to be made for past transfers. The estimated increase in the Scheme's liability in respect of this is less than £0.1m. 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 2020 (2019: £nil). The total UK defined contribution pension charge for the year was £1.2m (2019: £1.2m).

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 either five or ten years of employment with the Group, depending on the area of field they are working in. The amount of benefit payable depends on the grade of the employee and the number of years of service. Benefits under these schemes only apply to employees who joined the Group prior to 1997. 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 has a number of end of service schemes in the Middle East as required by local laws and regulations. The amount of benefit payable depends on the current salary of the employee and the number of years of service. These retirement obligations are funded on the Group's balance sheet and obligations are met as and when required by the Group. In the 2019 consolidated financial statements the liability of £3.0m was presented within provisions on the balance sheet (£0.8m current, £2.2m non-current), falling under the 'employee provisions' within the provisions note. On further review of these schemes during 2020 it was concluded that these schemes should be accounted for in accordance with IAS 19 'Employee Benefits' with the accounting following the same principles as for a defined benefit scheme. Provisions and retirement benefits have been restated in the comparative balance sheet to reflect this. The closing retirement benefit liability for 2020 is £2.9m.

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 £5.9m (2019: £6.1m).

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% (2019: 9.5%). The total Australian pension charge for the year was £3.1m (2019: £3.5m).

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

	The Keller Group Pension Scheme (UK) 2020 £m	The Keller Group Pension Scheme (UK) 2019 £m	**German,[1] Austrian and other schemes 2020 £m**	German,[2] Austrian and other schemes 2019 £m
Present value of the scheme liabilities	**(65.0)**	(60.4)	**(21.9)**	(20.7)
Fair value of assets	**58.0**	52.2	**—**	—
Deficit in the scheme	**(7.0)**	(8.2)	**(21.9)**	(20.7)
Irrecoverable surplus	**(2.2)**	(1.8)	**—**	—
Net defined benefit liability	**(9.2)**	(10.0)	**(21.9)**	(20.7)

[1] Included in this balance is £2.9m (2019: £3.0m) in relation to the end of service schemes in the Middle East.
[2] Retirement benefits presented here do not correspond to the published 2019 consolidated financial statements as a result of restating the comparative balance to reclassify end of service schemes in the Middle East from provisions to retirement benefit liabilities as outlined in note 34 to the financial statements.

For the Keller Group Pension Scheme, based on the net deficit of the Scheme as at 31 December 2020 and the committed payments under the Schedule of Contributions agreed on 17 November 2020, there is a notional surplus of £2.2m (2019: £1.8m). Management is of the view that, based on the Scheme rules, it does not have an unconditional right to a refund of a surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' has been recognised.

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

	The Keller Group Pension Scheme (UK) 2020 %	The Keller Group Pension Scheme (UK) 2019 %	**German and Austrian schemes 2020 %**	German and Austrian schemes 2019 %
Discount rate	**1.2**	2.0	**0.3**	0.5
Interest on assets	**1.2**	2.0	**—**	—
Rate of increase in pensions in payment	**3.4**	3.4	**2.0**	2.0
Rate of increase in pensions in deferment	**2.7**	2.3	**1.6**	2.0
Rate of inflation	**3.3**	3.3	**1.6**	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) 2020	The Keller Group Pension Scheme (UK) 2019	**German and Austrian schemes 2020**	German and Austrian schemes 2019
Male currently aged 65	**20.9**	21.7	**19.4**	20.7
Female currently aged 65	**23.3**	23.2	**22.8**	24.1

The assets of the schemes were as follows:

	The Keller Group Pension Scheme (UK) 2020 £m	The Keller Group Pension Scheme (UK) 2019 £m	**German, Austrian and other schemes 2020 £m**	German, Austrian and other schemes 2019 £m
Equities	**18.8**	17.5	**—**	—
Target return funds	**16.0**	14.5	**—**	—
Gilts	**11.2**	10.1	**—**	—
Bonds	**11.5**	10.0	**—**	—
Cash	**0.5**	0.1	**—**	—
	58.0	52.2	**—**	—

	The Keller Group Pension Scheme (UK) 2020 £m	The Keller Group Pension Scheme (UK) 2019 £m	**German,[1] Austrian and other schemes 2020 £m**	German, Austrian and other schemes 2019 £m
Changes in scheme liabilities				
Opening balance	**(60.4)**	(55.2)	**(20.7)**	(16.5)
Transfer from provisions[2]	**—**	—	**—**	(3.0)
Current service cost	**—**	—	**(0.7)**	(0.3)
Interest cost	**(1.2)**	(1.6)	**(0.1)**	(0.2)
Benefits paid	**3.7**	2.0	**1.2**	0.7
Exchange movements	**—**	—	**(0.8)**	1.2
Experience loss on defined benefit obligation	**(0.4)**	—	**—**	—
Changes to demographic assumptions	**2.7**	1.7	**—**	—
Changes to financial assumptions	**(9.4)**	(7.3)	**(0.8)**	(2.6)
Closing balance	**(65.0)**	(60.4)	**(21.9)**	(20.7)
Changes in scheme assets				
Opening balance	**52.2**	45.2	**—**	—
Interest on assets	**1.0**	1.3	**—**	—
Administration costs	**(0.2)**	(0.2)	**—**	—
Employer contributions	**2.6**	2.5	**—**	—
Benefits paid	**(3.7)**	(2.0)	**—**	—
Return on plan assets less interest	**6.1**	5.4	**—**	—
Closing balance	**58.0**	52.2	**—**	—
Actual return on scheme assets	**7.1**	6.7	**—**	—
Statement of comprehensive income				
Return on plan assets less interest	**6.1**	5.4	**—**	—
Experience loss on defined benefit obligation	**(0.4)**	—	**—**	—
Changes to demographic assumptions	**2.7**	1.7	**—**	—
Changes to financial assumptions	**(9.4)**	(7.3)	**(0.8)**	(2.6)
Change in irrecoverable surplus	**(0.4)**	(0.4)	**—**	—
Remeasurements of defined benefit plans	**(1.4)**	(0.6)	**(0.8)**	(2.6)
Cumulative remeasurements of defined benefit plans	**(25.6)**	(24.2)	**(10.4)**	(9.6)
Expense recognised in the income statement				
Current service cost	**—**	—	**0.7**	0.3
Administration costs	**0.2**	0.2	**—**	—
Operating costs	**0.2**	0.2	**0.7**	0.3
Net pension interest cost	**0.2**	0.3	**0.1**	0.2
Expense recognised in the income statement	**0.4**	0.5	**0.8**	0.5
Movements in the balance sheet liability				
Net liability at start of year	**10.0**	11.4	**20.7**	16.5
Transfer from provisions[2]	**—**	—	**—**	3.0
Expense recognised in the income statement	**0.4**	0.5	**0.8**	0.5
Employer contributions	**(2.6)**	(2.5)	**—**	—
Benefits paid	**—**	—	**(1.2)**	(0.7)
Exchange movements	**—**	—	**0.8**	(1.2)
Remeasurements of defined benefit plans	**1.4**	0.6	**0.8**	2.6
Net liability at end of year	**9.2**	10.0	**21.9**	20.7

[1] Other comprises end of service schemes in the Middle East of £2.9m (2019: £3.0m).
[2] In respect of the end of service schemes in the Middle East.

A reduction in the discount rate of 0.1% would increase the deficit in the schemes by £1.3m, 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 £0.7m. An increase in the mortality rate by one year would increase the deficit in the schemes by £4.5m.

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:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Present value of defined benefit obligation	**(86.9)**	(81.1)	(71.7)	(75.3)	(74.8)
Fair value of scheme assets	**58.0**	52.2	45.2	46.1	43.4
Deficit in the schemes	**(28.9)**	(28.9)	(26.5)	(29.2)	(31.4)
Irrecoverable surplus	**(2.2)**	(1.8)	(1.4)	—	—
Net defined benefit liability	**(31.1)**	(30.7)	(27.9)	(29.2)	(31.4)
Experience adjustments on scheme liabilities	**(7.9)**	(8.2)	3.7	(1.8)	(11.3)
Experience adjustments on scheme assets	**6.1**	5.4	(1.5)	3.2	3.9

33 Non-controlling interests

Financial information of subsidiaries that have a material non-controlling interest is provided below:

Name	Country of incorporation	**2020**	2019
Keller Fondations Speciales SPA	Algeria	**49%**	49%
Keller Turki Company Limited	Saudi Arabia	**35%**	35%

Please refer to note 9 of the company accounts for the registered addresses.

(Loss)/profit attributable to non-controlling interests:

	2020 £m	2019 £m
Keller Fondations Speciales SPA	**(0.6)**	0.8
Keller Turki Company Limited	**(1.0)**	(0.3)
Other interests	**0.2**	(0.2)
	(1.4)	0.3

Share of net assets of non-controlling interests:

	2020 £m	2019 £m
Keller Fondations Speciales SPA	**3.5**	4.9
Keller Turki Company Limited	**0.1**	1.5
Other interests	**0.1**	(1.1)
	3.7	5.3

Aggregate amounts relating to material non-controlling interests:

	2020 £m Keller Fondations Speciales SPA	**2020 £m Keller Turki Company Limited**	2019 £m Keller Fondations Speciales SPA	2019 £m Keller Turki Company Limited
Revenue	**0.8**	**1.5**	6.0	2.0
Operating costs	**(1.4)**	**(2.5)**	(5.0)	(2.3)
Operating profit	**(0.6)**	**(1.0)**	1.0	(0.3)
Finance costs	**—**	**—**	—	—
Profit before taxation	**(0.6)**	**(1.0)**	1.0	(0.3)
Taxation	**—**	**—**	(0.2)	—
(Loss)/profit attributable to non-controlling interests	**(0.6)**	**(1.0)**	0.8	(0.3)

	2020 £m Keller Fondations Speciales SPA	**2020 £m Keller Turki Company Limited**	2019 £m Keller Fondations Speciales SPA	2019 £m Keller Turki Company Limited
Non-current assets	**1.2**	**0.9**	1.9	0.7
Current assets	**4.0**	**1.0**	4.9	2.0
Current liabilities	**(1.7)**	**(1.1)**	(1.9)	(1.2)
Non-current liabilities	**—**	**(0.7)**	—	—
Share of net assets	**3.5**	**0.1**	4.9	1.5

34 Prior year restatement

In preparing the consolidated balance sheet for the year ended 31 December 2020, the Group restated amounts reported previously in the consolidated financial statements as a result of a reclassification of liabilities. There was no impact on the prior year consolidated income statement, cash flow statement or brought forward reserves.

Presented below is a reconciliation of the consolidated balance sheet previously reported as at 31 December 2019 to the 31 December 2020 comparative consolidated balance sheet:

	Note	2019 Presented £m	2019 Restatements £m	**2019** **Restated** **£m**
Trade and other payables	a	(486.8)	20.3	**(466.5)**
Provisions	a,b	(17.7)	(10.9)	**(28.6)**
Current liabilities	a,b	(566.6)	9.4	**(557.2)**
Retirement benefit liabilities	b	(27.7)	(3.0)	**(30.7)**
Provisions	a,b	(40.0)	(6.4)	**(46.4)**
Non-current liabilities	a,b	(461.0)	(9.4)	**(470.4)**
Total liabilities		(1,027.6)	—	**(1,027.6)**

The 31 December 2019 consolidated balance sheet previously reported has been restated as follows:

a) The Group previously classified contract provisions within trade and other payables. This classification has been revised and these have been reclassified to provisions. As a result, trade and other payables have decreased by £20.3m (2018: £18.9m), current provisions have increased by £11.7m (2018: £13.6m) and non-current provisions have increased by £8.6m (2018: £5.3m) to reflect the revised classification.

b) The Group previously classified end of service schemes in the Middle East within employee provisions. Following a review it was concluded these arrangements follow the same principles as a defined benefit scheme and are accounted for in accordance with IAS 19 'Employee Benefits'. As a result, current provisions have decreased by £0.8m, non-current provisions have decreased by £2.2m and retirement benefit liabilities have increased by £3.0m to reflect the revised classification. There was no material impact on the opening balances of the comparative period.

35 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 consolidated 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 and disposals (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 consolidated 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 2019 results of overseas operations into sterling at the 2020 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 to the consolidated financial statements. A reconciliation between the 2019 underlying result and the 2019 constant currency result is shown below and compared to the underlying 2020 performance:

Revenue by segment

	2020	2019				
	Statutory	Statutory	Impact of exchange movements	Constant currency	**Statutory change**	**Constant currency change**
	£m	£m	£m	£m	**%**	**%**
North America	**1,227.5**	1,333.9	(1.1)	1,332.8	**-8%**	**-8%**
Europe, Middle East and Africa	**607.6**	679.6	(8.2)	671.4	**-11%**	**-9%**
Asia-Pacific	**227.4**	287.0	(6.2)	280.8	**-21%**	**-19%**
Group	**2,062.5**	2,300.5	(15.5)	2,285.0	**-10%**	**-10%**

Underlying operating profit by segment

	2020	2019				
	Underlying	Underlying	Impact of exchange movements	Constant currency	**Underlying change**	**Constant currency change**
	£m	£m	£m	£m	**%**	**%**
North America	**83.2**	78.6	—	78.6	**+6%**	**+6%**
Europe, Middle East and Africa	**20.9**	28.4	0.8	29.2	**-26%**	**-28%**
Asia-Pacific	**13.0**	3.3	(0.2)	3.1	**n/a**	**n/a**
Central items	**(7.0)**	(6.5)	—	(6.5)	**+8%**	**+8%**
Group	**110.1**	103.8	0.6	104.4	**+6%**	**+5%**

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 (statutory)

	2020	2019
	£m	£m
Underlying operating profit	**110.1**	103.8
Depreciation of owned property, plant and equipment	**66.3**	68.4
Depreciation of right-of-use assets	**28.0**	25.6
Amortisation of intangible assets	**0.6**	0.6
Underlying EBITDA	**205.0**	198.4
Non-underlying items in operating costs	**(29.6)**	(28.7)
Non-underlying items in other operating income	**0.7**	3.3
EBITDA	**176.1**	173.0

EBITDA (covenant basis)

	2020 £m	2019 £m
Underlying operating profit	**108.0**	101.8
Depreciation of owned property, plant and equipment	**66.3**	68.4
Depreciation of right-of-use assets[1]	**0.1**	—
Amortisation of intangible assets	**0.6**	0.6
Underlying EBITDA	**175.0**	170.8
Non-underlying items in operating costs	**(29.6)**	(28.7)
Non-underlying items in other operating income	**0.7**	3.3
EBITDA	**146.1**	145.4

[1] Includes depreciation on legacy finance leases.

Net finance costs

	2020 £m	2019 £m
Finance income	**(1.1)**	(0.8)
Underlying finance costs	**14.3**	23.3
Net finance costs (statutory)	**13.2**	22.5
Finance charge on lease liabilities[1]	**(3.6)**	(4.3)
Lender covenant adjustments	**(1.5)**	(0.4)
Net finance costs (covenant basis)	**8.1**	17.8

[1] Excluding legacy finance leases.

Net capital expenditure

	2020 £m	2019 £m
Acquisition of property, plant and equipment	**72.5**	62.2
Acquisition of other intangible assets	**0.5**	0.7
Proceeds from sale of property, plant and equipment	**(7.4)**	(10.9)
Net capital expenditure[1]	**65.6**	52.0

[1] Net capital expenditure excludes right-of use assets.

Net debt

	2020 £m	2019 £m
Current loans and borrowings	**67.0**	41.0
Non-current loans and borrowings	**191.8**	347.7
Cash and cash equivalents	**(66.3)**	(98.9)
Net debt (statutory)	**192.5**	289.8
Lease liabilities[1]	**(71.6)**	(76.7)
Net debt (covenant basis)	**120.9**	213.1

[1] Excluding legacy finance leases.

Leverage ratio

The leverage ratio is calculated as net debt to underlying EBITDA.

Statutory

	2020 £m	2019 £m
Net debt	**192.5**	289.8
Underlying EBITDA	**205.0**	198.4
Leverage ratio (x)	**0.9**	1.5

Covenant basis

	2020 £m	2019 £m
Net debt	**120.9**	213.1
Underlying EBITDA	**175.0**	170.8
Leverage ratio (x)	**0.7**	1.2

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 consolidated 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.

Leases

IFRS 16 'Leases' became effective from 1 January 2019. The financial impact of this standard compared to the accounting under the previous leasing standard, IAS 17, is excluded when calculating borrowing leverage under the principal lender covenants and is summarised in the table below:

	2020 **£m**	2019 £m
Lease charges removed	**31.0**	27.6
Depreciation and impairment of right-of-use assets	**(28.7)**	(25.6)
Increase in operating profit	**2.3**	2.0
Finance charge	**(3.8)**	(4.3)
Reduction in profit before tax	**(1.5)**	(2.3)
Tax effect	**0.4**	0.7
Reduction in profit for the period	**(1.1)**	(1.6)
Right-of-use assets at balance sheet date	**69.5**	75.9
Lease liabilities at balance sheet date[1]	**(73.8)**	(78.4)

[1] Included in the lease liabilities are £2.2m of legacy finance leases (2019: £1.7m). These covenants are calculated on a frozen GAAP basis, hence these amounts are not excluded when calculating the borrowing leverage under the principal lender covenants.

Financial record

	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019[1] £m	**2020 £m**
Consolidated income statement										
Continuing operations										
Revenue	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	**2,062.5**
Underlying EBITDA	71.4	91.9	124.2	141.9	155.5	158.6	177.2	167.5	198.4	**205.0**
Underlying operating profit	28.9	48.3	77.8	92.0	103.4	95.3	108.7	96.6	103.8	**110.1**
Underlying net finance costs	(7.0)	(4.8)	(3.7)	(6.9)	(7.7)	(10.2)	(10.0)	(16.1)	(22.5)	**(13.2)**
Underlying profit before taxation	21.9	43.5	74.1	85.1	95.7	85.1	98.7	80.5	81.3	**96.9**
Underlying taxation	(5.5)	(13.5)	(23.8)	(29.7)	(33.0)	(29.8)	(24.7)	(22.5)	(22.4)	**(28.3)**
Underlying profit for the year	16.4	30.0	50.3	55.4	62.7	55.3	74.0	58.0	58.9	**68.6**
Non-underlying items[2]	—	—	(20.2)	(56.6)	(36.4)	(7.3)	13.5	(71.8)	(37.2)	**(27.5)**
Profit/(loss) for the year	16.4	30.0	30.1	(1.2)	26.3	48.0	87.5	(13.8)	21.7	**41.1**
Underlying EBITDA (covenant basis)	71.4	91.9	124.2	141.9	155.5	158.6	177.2	167.5	170.8	**175.0**
Consolidated balance sheet										
Working capital	119.8	97.6	124.1	104.1	97.1	152.5	181.3	225.4	230.8	**182.3**
Property, plant and equipment	266.1	248.5	281.9	295.6	331.8	405.6	399.2	422.0	460.6	**434.9**
Intangible and other non-current assets	116.4	112.1	202.8	203.4	183.0	218.2	198.3	179.5	150.8	**149.1**
Net debt (statutory)	(102.5)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	(289.8)	**(192.5)**
Other net assets/liabilities	(73.0)	(71.3)	(92.5)	(154.6)	(94.9)	(41.1)	(77.1)	(114.2)	(154.9)	**(163.8)**
Net assets	326.8	335.7	372.6	346.3	334.0	429.6	472.2	426.5	397.5	**410.0**
Net debt (covenant basis)	(102.5)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	(213.1)	**(120.9)**
Underlying key performance indicators										
Diluted earnings per share from continuing operations (p)	24.4	45.0	71.9	74.2	85.4	74.8	101.8	79.1	81.3	**96.3**
Dividend per share (p)	22.8	22.8	24.0	25.2	27.1	28.5	34.2	35.9	35.9	**35.9**
Operating margin	2.5%	3.7%	5.4%	5.8%	6.6%	5.4%	5.2%	4.3%	4.5%	**5.3%**
Return on capital employed[3]	6.6%	11.6%	16.7%	18.3%	20.5%	15.3%	15.1%	13.2%	14.4%	**16.4%**
Net debt: EBITDA (statutory)	1.4x	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	1.5x	**0.9x**
Net debt: EBITDA (covenant basis)	1.4x	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	1.2x	**0.7x**

1 Working capital and other net assets/liabilities presented here do not agree to the published 2019 consolidated financial statements as a result of restating the comparative balance sheet as outlined in note 34 to the consolidated financial statements.

2 Non-underlying items are items which are exceptional by their size and/or are non-trading in 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.

3 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 retirement liabilities.