8 March 2022

Keller Group plc Audited Preliminary Results for the year ended 31 December 2021

Keller Group plc ('Keller' or 'the Group'), the world's largest geotechnical specialist contractor, announces its results for the year ended 31 December 2021.

A strong and resilient performance ahead of market expectations

	2021 £m	2020 £m	% change	Constant currency % change
Revenue	**2,224.4**	2,062.5	+8%	+13%
Underlying operating profit[1]	**92.8**	110.1	-16%	-10%
Underlying operating profit margin[1]	**4.2%**	5.3%	-110bps	n/a
Underlying profit before tax[1]	**83.9**	96.9	-13%	-6%
Underlying diluted earnings per share[1]	**88.4p**	96.3p	-8%	
Free cash flow	**60.1**	134.2	-55%	
Net debt (bank covenant IAS 17 basis)[2]	**119.4**	120.9	-1%	
Dividend per share	**35.9p**	35.9p	—	
Statutory operating profit	**80.5**	77.0		
Statutory profit before tax	**71.6**	63.8		
Statutory diluted earnings per share	**86.1p**	58.5p		
Net cash inflow from operating activities	**155.7**	210.5		
Statutory net debt (IFRS 16 basis)	**193.3**	192.5		

[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

- Revenue increased to £2,224.4m, up 13% (at constant currency) as a result of increased trading activity, particularly during the second half, and several bolt-on acquisitions (up 9.7% on an organic basis)
- Record order book at £1.3bn; well positioned for future growth
- Underlying operating profit of £92.8m, ahead of market expectations, but down 10% (at constant currency) reflecting adverse pressure on market pricing, operational disruption due to COVID-19 and unrecovered steel price increases at Suncoast
- Underlying EPS of 88.4p, down 8%, decline mitigated by lower finance costs and a prior year benefit from R&D tax credit
- After funding acquisitions, net debt (on a bank covenant IAS 17 basis) marginally improved to £119.4m, equating to net debt/EBITDA leverage ratio of 0.8x (2020: 0.7x)
- Further progress in operational safety evidenced by a 42% improvement in our overall accident frequency rate
- Net zero targets set across all three emission scopes by 2050; net zero on Scope 2 by 2030, net zero on Scope 1 by 2040 and net zero by 2050 on Operational Scope 3
- Further execution of strategy with portfolio refinement and several acquisitions that build our share in our chosen markets, particularly RECON Services, Inc in North America
- 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

Michael Speakman, Chief Executive Officer, said:

"Keller proved its resilience in 2021, overcoming the many challenges posed by COVID-19 whilst further rationalising the business portfolio, completing a number of bolt-on acquisitions, delivering another strong set of results which are ahead of market expectations, and maintaining the dividend. Whilst we are mindful of the recently increased geopolitical and macroeconomic uncertainty and inflationary pressures, our expectations for 2022 are unchanged. Our £1.3bn record order book gives us good visibility in the near term. In addition, our strong balance sheet, a gradually improving market environment together with the positive momentum in the business, gives us confidence that 2022 will be a year of growth, with our usual second half bias."

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A webcast for investors and analysts will be held at 09.00 GMT on 8 March 2022 and will also be available later the same day on demand
https://www.investis-live.com/keller/61fcf5efd99fcd0c0000e9b9/defu

Conference call:	**Accessing the telephone replay:**
Participants joining by telephone: UK: 0800 640 6441 UK: (Local) 020 3936 2999 All other locations: +44 20 3936 2999 **Participant access code: 665534**	A recording will be available until 15 March 2022 UK: 020 3936 3001 USA: 1 845 709 8569 All other locations: +44 20 3936 3001 **Access Code: 785278**

Notes to editors:
Keller is the world's largest geotechnical specialist contractor providing a wide portfolio of advanced foundation and ground improvement techniques used across the entire construction sector. With around 10,000 staff and operations across 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, underlying profit before tax and underlying earnings per share, free cash flow, each of which represent the relevant 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.

Chief Executive Officer's review

Overview

In a year that has seen COVID-19 continue to challenge our business in so many ways, I am proud of how the Keller team have worked together, demonstrating resilience and agility in safeguarding our people, while supporting the continuing performance and development of our business. We have had a successful year, delivering financial results ahead of market expectations and successfully executing our strategy in very challenging market conditions. We also made further progress in operational safety, with a 42% improvement in our overall accident frequency rate.

As we predicted in the summer of 2020, the effect of the COVID-19 pandemic impacted Keller most markedly in 2021, later than other sectors, evidenced by reduced market demand and an associated operating margin compression. We anticipated correctly the timing of the inflection point marking the upturn in demand at around the half way point in the year. We delivered a stronger volume growth than anticipated, particularly in the second half, with significant contract wins and helped by acquisitions, both of which will benefit performance in 2022. However, our 2021 operating profit was negatively impacted, primarily by the COVID-19 adverse pressure on market pricing and operational disruption. Although the Group has suffered higher material and wage inflation, our businesses have been largely successful in passing the majority of these increased costs to our customers, with the exception of steel strand in the Suncoast High-Rise business.

Notwithstanding the tougher market conditions, the Group delivered a resilient performance and further significant strategic progress in the year, continuing to bring more focus to the portfolio by exiting non-core businesses and executing several acquisitions that build our market share in our chosen markets. We have continued the progressive transformation of the Group into a more efficient, more focused, higher-quality business, with industry-leading margins, achieving sustainable operational delivery and cash generation. We expect to see further benefits from these in 2022. Our record order book, now standing at £1.3bn, also gives us confidence for the future.

Financial performance

Group revenue was £2,224.4m, 13% up on the prior year on a constant currency basis, driven by increased activity as markets began to recover, particularly during the second half, with significant contract wins together with the benefit of several bolt-on acquisitions that are expected to benefit the bottom line in 2022.

Underlying operating profit decreased to £92.8m, a reduction of 10% at constant currency, impacted primarily by the COVID-19 adverse pressure on market pricing and operational disruption across our businesses. Although the Group has seen higher than expected material and wage inflation, our businesses have been largely successful in passing the majority of these increased costs to our customers, with the exception of steel strand in the Suncoast High-Rise business.

In North America, disruption, supply chain issues and labour availability caused adverse pressure on profitability, and these are expected to ease going forward. Our Europe Division recovered in performance compared with 2020 and benefited particularly from large contract wins. In AMEA, our Australia business was impacted significantly by COVID-19 imposed travel restrictions. Our Middle East and Africa business also had an extremely tough year, largely due to COVID-19, despite our successful claim on our Mozambique LNG contract. We are taking action to improve profitability in that business in 2022.

As a result of these factors, the underlying operating margin was 4.2% compared with 5.3% in 2020. We expect a recovery towards our historical margin profile in 2022.

Underlying diluted earnings per share decreased by 8% to 88.4p per share (2020: 96.3p per share), reflecting a decrease in operating profit. This was partially offset by lower financing costs and a lower tax rate reflecting the recognition of a prior year research and development tax credit in North America.

Despite the increased working capital requirement the growth in revenue demanded, the Group continued to generate a strong cash flow performance in the year. The free cash flow funded all the acquisitions in the year and marginally reduced the Group's net debt (on a bank covenant IAS 17 basis) to £119.4m (2020: £120.9m). This resulted in a net debt/EBITDA leverage ratio of 0.8x (2020: 0.7x) (on a bank covenant IAS 17 basis), comfortably within our target range of 0.5x-1.5x and compared to our covenant limit of 3.0x.

Operational performance

The market effects of COVID-19 had a significant impact on the business, particularly early on in the year, with the macro uncertainty driving customer behaviour to halt or delay a large number of projects. We anticipated correctly the timing of the inflection point marking the upturn in demand at around the halfway point in the year. This was reflected in our record order book at the year end of £1.3bn. Whilst we delivered a stronger volume growth than anticipated, particularly in the second half, our operating profit was negatively impacted by adverse pressure on market pricing and operational disruption. Although the business has suffered higher than expected material and wage inflation, our businesses have been largely successful in passing the majority of these increased costs to our customers, with the exception of steel strand in the Suncoast High-Rise business.

In North America, led by Eric Drooff, President North America, revenue increased by 15% (at constant currency) to £1,323.1m and underlying operating profit decreased by 5.6% (at constant currency) to £73.0m. The first half performance benefited strongly from the resolution of a historical claim, whilst trading activity generally was impacted by the COVID-19 slowdown in the construction market. Business activity increased as the year progressed following the success of vaccination and lockdown containment programmes. This led to increased business confidence and improved market demand. Suncoast was impacted by the continued higher cost of steel strand, partially mitigated by strong demand from the residential single family home market. The higher cost of steel strand has been unprecedented and directly impacted the profitability of the high-rise segment during the year given the market practice of fixed price contracts. We expect the adverse impact on profitability to unwind during 2022. Our North American performance, benefited from the inclusion of several acquisitions in the second half of the year, the largest being RECON Services, Inc (RECON), a geotechnical and industrial services company headquartered in Houston, Texas. Similar to Keller's existing Florida-based Moretrench Industrial business, RECON is focused on environmental remediation activities.

In Europe, led by Jim De Waele, President Europe, revenue increased by 5% (at constant currency) to £549.2m and operating profit increased 38% (at constant currency) to £24.3m. Its markets recovered during the course of the year with the easing of COVID-19 related shutdowns and travel restrictions resulting in higher levels of activity and contract performance. Performance also benefited from improved efficiencies on site, cost savings following the restructuring activity in the previous year, as well as the advancement of the large High Speed 2 (HS2) rail project in the UK and Sandbukta-Moss-Sastad (SMS2) rail project in Norway. We completed further restructuring with the formation of the new South West Europe Business Unit, further streamlining the Europe Division. In line with our strategy, our joint venture in Finland, KFS Finland Oy, acquired NordPile, a driven and drilling piling contractor.

In AMEA (Asia-Pacific, Middle East and Africa), led by Peter Wyton, President AMEA, revenue increased by 20% (at constant currency), to £352.1m while operating profit decreased 77% (at constant currency) to £3.4m. The division was the most impacted by COVID-19 of all our businesses during the year with countries and regions, particularly Australia and the Middle East and Africa, suffering lockdown restrictions in advance of vaccination programmes. Operational challenges caused by border restrictions in Keller Australia, and a difficult trading environment in the Middle East and Africa, resulted in both business units reporting a loss for the year. Notwithstanding the wider issues in Australia, Austral had a strong performance, driven by mining and port-related projects in the Pilbara region. In the second half of the year, a substantial settlement agreement was signed with our client in Mozambique in relation to the suspended liquefied natural gas (LNG) project. This largely reversed the contract loss incurred to date and protects the Group in the event that the contract does not resume in the short to medium term, justifying the approach we took to this contract and the risk assessment undertaken.

Strategy

The Group's corporate purpose reflects 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 have continued to successfully execute on our strategy, to be the preferred international geotechnical specialist contractor focused on **sustainable markets and attractive projects**, generating long-term value for our stakeholders. Our local businesses leverage the Group's scale and expertise to deliver engineered solutions and operational excellence, driving market share leadership in our selected segments.

Our diversified model of operating in a number of sectors, applications and geographies helps to generate revenues that are resilient whilst lessening the impacts that can arise from business cycles and geopolitics. In line with our strategy we have continued to focus on increased market penetration and cost reduction.

Progress on strategic priorities for 2021

In North America, we furthered our drive to gain market share in our chosen markets with the acquisition in July of RECON Services, Inc (RECON), a geotechnical and industrial services company headquartered in Houston, Texas. Similar to Keller's existing Florida-based Moretrench Industrial business, RECON is focused on environmental remediation activities. The geographic proximity of the two businesses provides revenue synergies from cross-selling opportunities, both between the two businesses and also the Keller foundations businesses, and some, primarily volume-based, cost synergies. The additional revenue synergies provide the opportunity to increase the Group's overall market share in the important Gulf Coast area where Keller has historically been relatively under-represented. The cash consideration on an enterprise value basis was US$23m (£17m), and an original maximum earn-out of US$15m (£11m) related to specific future contract wins. As we anticipated, RECON was awarded one of the specific contracts in December, worth approximately US$160m (£120m) in revenue over two years, in connection with the development of an energy facility in the Gulf Coast region of the USA.

In October, the North America Division acquired Subterranean (Manitoba) Ltd, a small market-leading geotechnical foundation business in Manitoba, Canada. In November 2021, the division acquired Voges Drilling, a geotechnical foundation company based in Texas. At the end of June, the division disposed of its non-core Cyntech Anchors operation in Canada.

In Europe, as well as rightsizing the divisional head office, we simplified the structure of the division by reducing the number of business units following the merger of French Speaking Countries with Iberia and Latin America, by forming one new South West Europe Business Unit; this became effective on 1 July 2021. Early wins from this strategic action include securing work as a combined business unit that Keller would not have won previously, and a reduction in costs.

Our joint venture in Finland, KFS Finland Oy, acquired NordPile, a driven and drilling piling contractor, in September. This acquisition reinforces KFS's position as the largest geotechnical specialist contractor in the region offering the widest range of solutions.

Strategic priorities for 2022

Market-leading operational execution is imperative in order to remain competitive and therefore enhancing operational excellence is a key focus for the Group. During 2021 we established a multi-functional team of experts, drawn from across the Group to identify and develop best practice in project management and site support business processes that are currently deployed within Keller. This bank of knowledge will be leveraged by implementing best practice standard templates across the Group using a proven, cloud-based enterprise resource planning (ERP) system. In doing so the initiative will embed operational excellence in project execution across the whole Group, together with the associated financial benefits. It will allow the full integration of project management, supply chain, human resources, equipment and operations which will all seamlessly feed through to financials, and provide a single, standardised platform for robust, systemic, pre-emptive management controls, and a convenient solution to the emerging requirement for UK SOX. The initiative will be implemented progressively over 5 years by a project team that consists of seasoned business leaders, subject matter experts and experienced ERP global system implementors. We will leverage our risk management processes to help control the challenges associated with implementing the programme of work.

As we execute our strategy and further penetrate our chosen local markets, we will continue to pursue suitable bolt-on acquisition opportunities and integrate them into the Group. RECON is integrating well, and during 2022, will together with Moretrench Industrial, be developed as we establish and build our new environmental, geotechnical and industrial services business that will leverage our position in this large and growing sector. We will continue to be focused and disciplined in our acquisition process.

Environmental, Social and Governance (ESG)

We define ESG and sustainability according to our four Ps: Planet, People, Principles and Profitable projects. Beneath each P, we have a number of global and local initiatives aligned to the UN Sustainable Development Goals (SDGs). These provide a common language for us to communicate sustainability initiatives to our stakeholders worldwide. In terms of global initiatives, under Planet we focus on carbon reduction (SDG 13), under People, we focus on safety (SDG 3) and gender equality (SDG 5); and under Principles we focus on good governance (SDG 16). In addition, there are a number of other SDG initiatives that are being supported at local business level that are relevant and appropriate to their community context.

The safety of every individual is our priority. While our safety performance has improved, we are not yet where we need to be. Making sure every employee returns home safely at the end of each day drives our thinking and behaviours across the Group. It is with this approach that we have reduced the Group's accident frequency rate (AFR) by 42% compared with 2020, and our AMEA Division had an outstanding year achieving an AFR of zero. Our total recordable incident rate (TRIR) also improved by 32%.

Led by John Raine, Group HSEQ Director, we have a number of safety initiatives underway to leverage our experience and safety knowledge across the Group. As our number of recordable incidents decreases, it is more important than ever to focus on proactive reporting measures to identify and address hazardous situations pre-emptively, before accidents occur with their inherent potential for adverse consequences. Year-on-year near miss reports are increasing as a consequence of this increased emphasis and leadership site interaction is strong, even with the site access challenges created by COVID-19. Overall the safety culture and awareness continues to improve, and is clearly evidenced in recent employee engagement surveys. We are very proud of our industry-leading performance and improving track record, and were devastated to lose a long-serving and valued employee early in 2021 following an accident on a site in Austria. Whilst it has been determined Keller was not at fault for the accident, the incident has caused us to re-double our efforts and we have continued to further advance our safety programmes. We continue to share our safety best practices with trade associations, so that the whole sector can continue to improve health and safety.

The global COVID-19 pandemic continued to create operational challenges in 2021. The Group has actively encouraged and supported employees to become vaccinated against COVID-19 wherever possible. However, I'm greatly saddened that across the Group we have lost eight colleagues due to COVID-19 related illness. Whilst we believe none of these cases were related to the workplace, we have taken great care in supporting the families through their bereavements. The vaccination status of those that have died is consistent with the external benchmark globally and supports our active approach to encourage our workforce in becoming vaccinated.

At Keller, we recognise safety and wellbeing is more than just avoiding accidents and this year we launched our first ever wellbeing framework. This helps our business units support and develop the aspects of wellbeing important to our employees worldwide - body, mind, community, growth and financial security wellbeing.

Having launched our Inclusion Commitments, our focus in 2021 was on giving our teams the understanding and the means to contribute to our aspiration to become a diverse, equitable and inclusive workplace. Today is International Women's Day and an ideal opportunity to reflect on how we can collectively continue to #BreakTheBias and further accelerate gender equality.

In respect of carbon reduction, the Group has set ambitious but achievable net zero targets by 2050. We will be net zero across all three emission scopes by 2050; net zero on Scope 2 by 2030, net zero on Scope 1 by 2040 and net zero by 2050 on Operational Scope 3 (covering business travel, material transport and waste disposal). We have already begun implementing the substantive short term actions to address Scope 2 and are developing the medium and long-term actions for Scope 1 and 3 that are required to achieve these goals.

Good governance plays an essential role in how we operate the business. During 2021, despite the challenging backdrop, we continued to take a number of steps to strengthen our leadership, our management controls, and our understanding of the needs of our stakeholders. This included listening to the views of our past, current and potential investors. At the end of the year we completed an investor audit of a number of key institutions enabling us to deepen our understanding of the views of investors. Participation by those that took part was greatly appreciated and we will actively use the feedback as we move forward. We will repeat the exercise in the future so that we can maintain a momentum of continuous improvement and monitor our progress.

People

Our people are the major differentiator of our business and pivotal to everything we do. I continue to be immensely impressed by the dedication and tenacity of our team. Despite the prolonged attrition of COVID-19, in terms of social isolation and logistical challenges, employees have continued to go to extraordinary lengths to continue to safely deliver projects for our customers. I would like to acknowledge this endeavour and thank all Keller employees for their commitment, hard work and expertise during another very challenging year.

On the Executive team, James Hind, Divisional President of Keller North America, retired at the end of 2021, after 18 years' service. James was a highly effective member of the Executive team, from his appointment in 2003 as Finance Director of Keller Group plc and an Executive Director on the Board until 2020, through to his most recent appointment as Divisional President of Keller North America, a post he held since 2018. Under his leadership and with the support of a strong Executive team, Keller North America has undergone significant transformation, with greatly enhanced organisational capability and accelerated collaboration. Eric Drooff, previously Chief Operating Officer, Keller North America, has succeeded James. Over the 29 years Eric has been with Keller North America he has demonstrated his strong leadership capabilities across the organisation and his dedication, passion and depth of geotechnical experience made him the best person to lead Keller North America.

We are deeply concerned about the military invasion of Ukraine and the unfolding humanitarian crisis. Whilst we have no projects in the country, and therefore there is no material impact on our business, we have two employees based in Ukraine and over 20 Ukrainian nationals working for us in our North East Europe Business Unit. Furthermore, many colleagues across Keller have connections with people in Ukraine. Our first thoughts are with them and their families. Our team in Poland has been providing practical support including help at the border with transport, accommodation and medical supplies. Events are unfolding rapidly on the ground, and accordingly we continue to evaluate where to best deploy our Group support to most effectively assist the humanitarian relief effort.

Dividend

The Board is recommending the payment of a 2021 final dividend of 23.3p per share (2020: 23.3p per share) to be paid on 1 July 2022 to shareholders on the register as at the close of business on 6 June 2022. We are very proud of our dividend history and recognise its importance to shareholders. Even through very challenging times we have consistently increased or maintained the dividend over the last 27 years since first listing on the London Stock Exchange, one of only a few listed companies to have achieved this. The continuation of dividend payments during the challenging macro environment of 2020 and 2021 reflected the financial strength of the Group, its significant liquidity position and the longer term confidence in the performance of the business. As we advance through 2022 the Board will review the progression of our dividend.

Outlook

We have had a successful year given the extremely challenging business environment. The year developed largely as we anticipated at our 2020 interim results, and whilst inflationary impacts were larger than expected, the resilience of the Group has meant that the financial performance for the year was still ahead of market expectations. We have continued to implement strategic actions to shape Keller's future, while delivering robust operational and financial results built on a strong balance sheet. We have a clear strategy and increasing operational momentum with a record order book of £1.3bn. This, together with the maintenance of the dividend, evidences our confidence in the medium term.

Whilst we are mindful of the recently increased geopolitical and macroeconomic uncertainty and inflationary pressures, our expectations for 2022 are unchanged. We remain strategically well placed to benefit from the anticipated macroeconomic recovery and increasing levels of public infrastructure spending in our chosen markets, although this recovery will naturally vary by geography as countries progressively manage COVID-19 as an endemic rather than pandemic challenge.

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

	2021 £m	2020 £m	Constant currency
Revenue	**1,323.1**	1,227.5	+15.4%
Underlying operating profit	**73.0**	83.2	-5.6%
Underlying operating margin	**5.5%**	6.8%	
Order book[1]	**787.0**	593.9	+32.5%

[1] Comparative order book stated at constant currency

In North America, revenue increased by 15.4%, on a constant currency basis, with improved momentum across all markets and the addition of the recently acquired RECON Services, Inc (RECON) business in Texas, which will contribute to profits in 2022. Underlying operating profit decreased by 5.6% on a constant currency basis to £73.0m, driven by market pricing pressures and the impact of higher costs of materials and labour. These were partly offset by the benefit from the resolution of a historical claim (c£7m) in H1 and strong growth at Moretrench Industrial. The underlying operating margin decreased to 5.5% from 6.8% in the prior year primarily due to the impact of the increased cost of steel strand in the Suncoast High-Rise business and pressure on profitability due to labour and material shortages and the associated operational disruptions. Our continued focus on safety saw our key metric, accident frequency rate, fall from 0.08 in 2020 to 0.03 for 2021, a 63% improvement.

On a like-for-like basis, excluding acquisitions and disposals on a constant currency basis, revenue for the year increased by 11%, and operating profit decreased by 14%.

In 2021 the construction industry in the US grew 8%, driven by a 12% increase in residential construction. Non-residential construction grew 2%.

As anticipated, we had a slow start to the year following the continued impact of the COVID-19 pandemic which curtailed sentiment and activity in the second half of 2020 through to early 2021. In March, trading accelerated and we began to operate more normally given the combination of increased vaccination rates across the North American population and reduced restrictions and lockdowns.

The foundations business demonstrated its resilience with a flat year-on-year profit performance with margins impacted by market pricing pressure and higher input costs.

Our Canadian business delivered a strong performance in terms of revenue and profit, benefiting from a restructuring and a strengthening of the management team in 2020 as well as the acquisition of Subterranean (Manitoba) Ltd, a small, market-leading geotechnical foundations business, for a cash consideration of £7.8m.

Suncoast, the Group's post-tension business serving mostly the residential construction market, experienced high volumes with revenue ahead of the prior year. The high-rise sector continued to be challenged by the increased cost of imported, as well as domestic, steel strand, Suncoast's main raw material, which negatively impacted operating profit. The recent unprecedented increase in the cost of steel is expected to continue to impact margins in the near term. We expect the adverse impact on profitability to unwind during 2022.

Moretrench Industrial, which operates in the highly regulated industrial and power segments, performed well with increased revenue and profit driven by the Florida industrial market.

The Hampton Roads Bridge Tunnel Expansion Project in Virginia, cUS$120m two-year contract, is c65% complete. Work on the South Island has concluded and the team has commenced work on the North Island.

In July 2021, we announced the acquisition of RECON, an environmental, geotechnical and industrial services company headquartered in Houston, Texas. RECON is a specialist geotechnical environmental remediation and industrial services contractor working principally for industrial clients, many in the petrochemical sector, predominantly along the Gulf and East coasts of the United States. Similar to Keller's existing Florida-based Moretrench Industrial business, RECON is focused on environmental remediation activities and the geographic proximity of the two businesses provides revenue synergies from cross-selling opportunities, both between the two businesses and also the Keller foundations businesses. The additional revenue synergies provide the opportunity to increase the Group's overall market share in the important Gulf Coast area where Keller has historically been relatively under-represented and where a significant pipeline of new projects is projected by the petrochemical sector. Cost synergies will also be achieved through this acquisition. The cash consideration on an enterprise value basis was US$23m (£17m), and an original maximum earn-out of US$15m (£11m) related to specific future contract wins. As we anticipated, in December 2021 RECON was awarded a contract worth approximately US$160m (£120m) in revenue over two years, in connection with the development of an energy facility in the Gulf Coast region of the USA. RECON is integrating well and, during 2022, will together with Moretrench Industrial, be developed as we establish and build our new environmental, geotechnical and industrial services business that will leverage our position in this large and growing sector.

On 1 November 2021, the division acquired Voges Drilling, a geotechnical foundation company based in Texas for cash consideration of £1.4m and a further deferred consideration of £0.8m is payable over three years. At the end of June 2021, the division disposed of its non-core Cyntech Anchors operation in Canada.

The order book for North America at the period end was at £787.0m, up 32.5% (on a constant currency basis) from the closing position at the end of 2020. The increase year on year is predominantly driven by the newly-signed RECON contract worth £120m ($160m) over two years.

Europe[1]

	2021 £m	2020 £m	Constant currency
Revenue	**549.2**	538.5	+5.2%
Underlying operating profit	**24.3**	18.4	+38.2%
Underlying operating margin	**4.4%**	3.4%	
Order book[2]	**332.7**	220.3	+51.0%

[2] Comparative order book stated at constant currency

In Europe, revenue increased by 5.2% on a constant currency basis as markets recovered with the COVID-19 related shutdowns and travel restrictions easing as the year progressed. Underlying operating profit was £24.3m, up 38.2% on a constant currency basis, reflecting the higher level of activity, improved efficiencies on site, enhanced contract profitability and cost savings following the prior year restructuring activity. As a result, the underlying operating margin increased to 4.4% (2020: 3.4%).

In early 2021, a tragic fatality occurred following an accident on a site in Austria in which we lost a long-serving employee. Whilst a thorough investigation has determined Keller was not at fault for the accident, we have continued to advance our safety programmes. The accident frequency rate was up slightly at 0.24 from 0.18 in 2020.

Following a relatively slow start to the year due to some harsh winter weather in some parts of Europe and the continued impacts of the pandemic, momentum built as markets opened up with people and equipment permitted to cross borders more easily and the year finished more strongly. Whilst the division was impacted by both material and labour shortages, which were operationally challenging, and the widely-publicised inflationary pressures continued to be felt across the continent, the division generated an exceptional performance from several major projects.

South-East Europe and Nordics delivered record revenue with significant increases in activity levels in Austria and Italy. The Scandinavian region also continued to grow, and benefitted from the Sandbukta-Moss-Sastad rail project (SMS2) in Norway. In September 2021, our joint venture in Finland, KFS Finland Oy, acquired NordPile, a driven and drilling piling contractor. This acquisition reinforces KFS's position as the largest geotechnical specialist contractor in the region offering the broadest range of solutions and is consistent with our wider strategy of building market-leading shares in the regions that play to our strengths.

The UK business, which was adversely impacted in 2020 by the hesitant investment climate following the 2019 general election and uncertainty around Brexit, reported good revenue growth, including the benefit from several contract awards on the High Speed 2 rail project (HS2). Particularly noteworthy are the C1 package at a value of c£84m, awarded in February 2021, and the main packages of work on C2/3 at a value of c£48m which were secured in April.

Our businesses in Central Europe and North East Europe were impacted by lower volumes at the start of the year due to the weather and project delays related to COVID-19. However, both businesses finished the year with improved activity levels and strong order books. At the end of 2021 North East Europe secured a €26m piling contract for work at an oil refinery in Poland which is expected to be delivered during 2022. We are also exploring the Baltic region for potential expansion with some attractive future projects in the pipeline.

In July 2021, the new South West Europe Business Unit was formed following the successful merger of our French Speaking Countries and Iberia and Latin America businesses. South West Europe was our business most affected by the impact of COVID-19 in the period, with extended country lockdowns and delays to contract starts. In addition, the completion in early 2021 of an oil refinery project in Mexico contributed to reduced revenue and profits compared to the prior year. The combined business unit is now being integrated and is better positioned to benefit from growth opportunities in its domestic and overseas markets.

The European portfolio is more focused following the exit from South America and the disposal of non-core businesses during 2020. As a result of these actions, we were also able to reduce the divisional overhead. Moving forward, we will continue to review our various European markets to ensure that we focus only on sustainable markets and attractive projects that generate long-term returns.

The European core business continues to recover steadily, and we have benefited from a number of larger projects across the region, particularly in infrastructure. Looking forward, our success in the region will require those larger projects to be replaced. However, our strong regional approach coupled with our divisional support will ensure we are well placed to pursue new contract opportunities.

The Europe order book at the end of the period was £332.7m, up 51% (on a constant currency basis) on the prior year, largely due to the HS2 contracts.

[1] In November 2020 it was announced that from 1 January 2021 the MEA business would be transferred to the APAC division, creating the Asia-Pacific, Middle East and Africa, (AMEA) division, and the remaining EMEA division becoming Europe. The comparative financials for 2020 are on a proforma basis, aligned with our new structure.

Asia-Pacific, Middle East and Africa (AMEA)[1]

	2021 **£m**	2020 £m	Constant currency
Revenue	**352.1**	296.5	+20.4%
Underlying operating profit	**3.4**	15.5	-77.1%
Underlying operating margin	**1.0%**	5.2%	
Order book[2]	**177.3**	182.2	-2.7%

[2] Comparative order book stated at constant currency

In AMEA, revenues increased by 20.4% on a constant currency basis, driven predominantly by Austral in Australia and India, partly offset by a decline in the Middle East and Africa business which was transferred into the Division at the beginning of 2021. Operating profit in the division as a whole decreased by 77.1% on a constant currency basis to £3.4m, driven by operational disruption as a result of COVID-19, particularly in Keller Australia and an extremely challenging trading environment in the Middle East and Africa. The division had a notable achievement in its safety record with no significant accidents reported in the period, resulting in a zero accident frequency rate.

The effects of the COVID-19 pandemic were felt across all our markets in the division to varying degrees. The ASEAN business continued to feel the impact of COVID-19 through the postponement of contracts and border closures. However, trading levels improved in the second half and the business delivered revenue growth for the year. The business continued to benefit from the restructuring activity in 2019 and is well placed for the future with a strong focus on ground improvement projects across the region.

Austral in Australia had another strong performance in terms of revenue and profit growth as it nears completion of Rio Tinto's Cape Lambert Port in the Pilbara, Australia. The business has secured a strong pipeline of projects, including a number of other mining and port-related projects in the Pilbara region, and continues its diversification strategy with key selected projects on Australia's east coast.

Our Keller Australia business had a particularly difficult year, making a loss in the period. The challenges posed by the COVID-19 travel restrictions and state border restrictions in Australia had a very significant impact on operations and profits, amid a continued softness in some markets. The workforce model relies on the fluid movement of employees and equipment around the country and the travel restrictions made movement impossible for long periods of time. Many employees made huge personal sacrifices including long periods away from home due to the strict lockdown rules. Tendering activity has substantially improved, the management team has been strengthened and the outlook is more positive as border restrictions ease.

Our India business performed strongly in terms of revenue and profit growth with management successfully managing the business in a country that has been severely impacted by the effects of COVID-19. Tendering levels improved and there are a number of good prospects in the pipeline.

The Middle East and Africa business has been the most challenged region in terms of market clarity and recovery from the impacts of COVID-19, with many countries relying on lockdowns and restrictions in advance of vaccination programmes. At the end of the year, we signed a substantial agreement with our client in Mozambique in relation to the suspended LNG project. This largely reversed the contract loss incurred to date and protects the Group in the event that the contract does not resume. Despite the successful Mozambique resolution, the Middle East and Africa business as a whole recorded a loss in the year. The focus is now on turning this business around post COVID-19 and actions are being taken to deliver this. Tendering activity in the region continues to strengthen, though with more variability than other areas of AMEA.

The AMEA order book strengthened strongly through the second half and at the end of the period was £177.3m down 2.7% (on a constant currency basis) on the prior year.

[1]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. The comparative financials for 2020 are on a proforma basis, aligned with our new structure.

Chief Financial Officer's review

This report comments on the key financial aspects of the Group's 2021 results.

	2021 £m	2020 £m
Revenue	**2,224.4**	2,062.5
Underlying operating profit[1]	**92.8**	110.1
Underlying operating profit %[1]	**4.2%**	5.3%
Non-underlying items	**(12.3)**	(33.1)
Statutory operating profit	**80.5**	77.0
Statutory operating profit %	**3.6%**	3.7%

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 67.

Revenue split by geography

£m	**North America**	**Europe[2]**	**AMEA[2]**	**Total**
2021				
H1	**581.7**	**242.0**	**160.4**	**984.1**
H2	**741.4**	**307.2**	**191.7**	**1,240.3**
Total	**1,323.1**	**549.2**	**352.1**	**2,224.4**
2020				
H1	636.5	254.7	147.9	1,039.1
H2	591.0	283.8	148.6	1,023.4
Total	1,227.5	538.5	296.5	2,062.5

	Revenue £m		**Underlying operating profit[3] £m**		**Underlying operating profit margin[3] %**	
Year ended	**2021**	2020	**2021**	2020	**2021**	2020
Division						
North America	**1,323.1**	1,227.5	**73.0**	83.2	**5.5%**	6.8%
Europe[2]	**549.2**	538.5	**24.3**	18.4	**4.4%**	3.4%
AMEA[2]	**352.1**	296.5	**3.4**	15.5	**1.0%**	5.2%
Central	**—**	—	**(7.9)**	(7.0)	**—**	—
Group	**2,224.4**	2,062.5	**92.8**	110.1	**4.2%**	5.3%

2 From 1 January 2021 Middle East and Africa business unit transferred to APAC division, to create the Asia-Pacific, Middle East and Africa (AMEA) division. The remaining EMEA division became our Europe division. The comparative financials for 2020 are on a proforma basis, aligned with our new structure.
3 Details of non-underlying items are set out in note 8 of the consolidated financial statements.

Revenue

Revenue of £2,224.4m (2020: £2,062.5m) was 7.8% up on 2020, driven by increased activity, as markets began to recover, particularly in the second half, with significant contract wins together with the benefit of several bolt-on acquisitions. At constant currency, revenue increased by 13.4% and increased across all three divisions. North America reported an increase in revenue of 15.4% (at constant currency), with improved momentum across all markets and the addition of several bolt-on acquisitions, the largest being RECON Services, Inc (RECON). Of the 15.4% increase in revenue, 4.1% was derived from businesses acquired in 2021 and 11.3% from the existing business. Europe revenue increased by 5.2% (at constant currency) as markets recovered with the COVID-19 related shutdowns and travel restrictions easing as the year progressed. AMEA revenue increased by 20.4% (at constant currency) driven predominantly by Austral in Australia and India, partly offset by a decline in the Middle East and Africa business.

We have a consistently diversified spread of revenues across geographies, product lines, market segments and end customers. Customers are generally market specific and, consistent with the prior year, the largest customer represented less than 3% of the Group's revenue. The top 10 customers represent 15% of the Group's revenue (2020: 11%). The Group worked on more than 6,000 projects in the year with 60% 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 £92.8m was 15.7% down on prior year (2020: £110.1m), which on a constant currency basis was 9.7% down, impacted primarily by the COVID-19 adverse pressure on market pricing and operational disruption across our businesses.

North America underlying constant currency operating profit decreased by 5.6% to £73.0m driven by market pricing pressures and the impact of higher costs of materials and labour. In particular, operating profit at Suncoast reduced by £15.3m, largely due to the increased cost of steel strand in High-Rise. Europe constant currency operating profit increased 38.2% reflecting the higher level of activity, improved efficiencies on site, enhanced contract profitability and cost savings following the prior year restructuring activity. AMEA constant currency operating profit decreased by 77.1% to £3.4m driven by operational disruption as a result of COVID-19, particularly in Keller Australia and an extremely challenging trading environment in the Middle East and Africa.

Share of post-tax results from joint ventures

The Group recognised an underlying post-tax profit of £0.4m in the year (2020: £0.8m) from its share of the post-tax results from joint ventures. The share of the post-tax amortisation charge of £0.6m arising from the acquisition of NordPile by our joint venture KFS Oy is included as a non-underlying item. No dividends (2020: £0.4m) were received from joint ventures in the year.

Statutory operating profit

Statutory operating profit comprising underlying operating profit of £92.8m (2020: £110.1m) and non-underlying items comprising net costs of £12.3m (2020: £33.1m), increased by 4.5% to £80.5m (2020: £77.0m).

Net finance costs

Net finance costs decreased by 32.6% to £8.9m (2020: £13.2m). The reduction has been driven by the decrease in US LIBOR, which reduces the cost of the Group’s private placement debt, and a decrease in the average net debt levels through the year. The average net borrowings, excluding IFRS 16 lease liabilities, during the year were £147.6m (2020: £183.5m).

Taxation

The Group’s underlying effective tax rate decreased to 24% (2020: 29%), largely due to a prior year benefit in North America from research and development tax credits. Cash tax paid in the year of £15.9m (2020: £24.9m) was a decrease of £9.0m over the prior year and was mainly attributable to the impact of the additional research and development tax credits. 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

The items below have been excluded from the underlying results and further details of non-underlying items are included in note 8 to the financial statements. The total pre-tax non-underlying items in the year decreased to £12.3m (2020: £33.1m), due to the reduction in restructuring activity during the year.

	2021 **£m**	2020 £m
Exceptional restructuring costs	**7.3**	16.6
Loss on disposal of operations	**0.5**	11.6
Acquisition costs	**0.5**	0.3
Contingent consideration: additional amounts provided	**1.3**	0.8
Goodwill impairment	**—**	0.3
Amortisation of acquired intangible assets	**2.8**	4.2
Amortisation of joint venture acquired intangibles	**0.6**	—
Contingent consideration received	**(0.7)**	—
Exceptional contract dispute	**—**	(0.7)
Total non-underlying items in operating profit	**12.3**	33.1
Non-underlying taxation	**(10.6)**	(5.6)
Total non-underlying items	**1.7**	27.5

Non-underlying items in operating profit

Total exceptional restructuring costs of £7.3m have been incurred in AMEA and Europe as the final costs on the project to rationalise the Middle East and Africa businesses and the restructuring costs incurred in KGS, the in-house equipment manufacturer following a review of overheads.

The loss on disposal of operations comprises £0.5m loss on disposal arising from the disposal of the non-core Cyntech Anchors business in Canada and the finalisation of the sale price for the disposal of the Brazil business in 2020. Acquisition costs of £0.5m relate to professional fees and other related costs incurred through the acquisitions of RECON and Subterranean.

Additional contingent consideration payable of £1.3m relates to the acquisition of the Geo Construction Group (Bencor) in 2015, following finalisation of items referenced in the sale and purchase agreement.

The £2.8m charge for amortisation of acquired intangible assets relates to the RECON, Moretrench Industrial and Austral acquisitions. Amortisation of joint venture intangibles of £0.6m relates to the NordPile acquisition undertaken by our joint venture investment KFS Finland Oy during the year.

Contingent consideration of £0.7m was received in respect of the 2020 Wannenwetsch disposal.

Non-underlying taxation

A non-underlying tax credit of £10.6m (2020: £5.6m) included the £1.5m (2020: £3.7m) tax impact of the non-underlying loss. The remaining £9.1m (2020: £1.9m) tax credit arose from the partial reversal of the valuation allowance against deferred tax assets in Canada and Australia that was recognised through the non-underlying tax charge in prior years.

Free cash flow

	2021 £m	2020 £m
Underlying operating profit	92.8	110.1
Depreciation, amortisation and impairment	97.4	94.9
Underlying EBITDA	**190.2**	**205.0**
Non-cash items	—	1.9
Dividends from joint ventures	—	0.4
(Increase)/decrease in working capital	(3.1)	38.2
(Decrease)/increase in provisions and retirement benefit liabilities	(7.8)	13.9
Net capital expenditure	(74.6)	(65.6)
Additions to right-of-use assets	(23.4)	(22.7)
Free cash flow before interest and tax	**81.3**	**171.1**
Free cash flow before interest and tax to underlying operating profit	**88%**	**155%**
Net interest paid	(5.3)	(12.0)
Cash tax paid	(15.9)	(24.9)
Free cash flow	**60.1**	**134.2**
Dividends paid to shareholders	(25.9)	(25.9)
Purchase of own shares	(3.7)	—
Acquisitions	(31.3)	—
Business disposals	7.1	2.2
Non-underlying items	(2.0)	(11.0)
Right-of-use assets/lease liability modifications	(4.0)	(1.1)
Foreign exchange movements	(1.1)	(1.1)
Movement in net debt	**(0.8)**	**97.3**
Opening net debt	**(192.5)**	**(289.8)**
Closing net debt	**(193.3)**	**(192.5)**

Earnings per share

Underlying diluted earnings per share decreased by 8.2% to 88.4p (2020: 96.3p) driven by lower operating profit partially offset by the reduction in finance costs and the effective tax rate reduction. Statutory diluted earnings per share was 86.1p (2020: 58.5p) which reflects the reduction in non-underlying items in comparison to the prior year.

Dividend

The Board has recommended a final dividend of 23.3p per share (2020: 23.3p per share) which, following the interim dividend for 2021 of 12.6p (2020: 12.6p), brings the total dividend for the year to 35.9p (2020: 35.9p). The 2021 dividend earnings cover, before non-underlying items, was 2.5x (2020: 2.7x).

The Group's dividend policy is to increase the dividend sustainably whilst allowing the Group to be able to grow, or as a minimum, maintain, the level of dividend through market cycles. The continuation of dividend payments during the challenging macro environment of 2020 and 2021 reflects the financial strength of the Group, its significant liquidity position and the longer-term confidence in the performance of the business. As we advance through 2022 the Board will review the progression of our dividend.

Keller Group plc had distributable reserves of £122.9m at 31 December 2021 that are available to support the dividend policy, which comfortably covers the proposed full-year dividend for 2021 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

On 13 July 2021, the Group acquired RECON Services, Inc for an initial cash consideration of £20.2m and £9.5m of contingent consideration, of which £1.5m had been paid at year end. The business is a geotechnical environmental remediation and industrial services company based in Texas, US and is included in the North America Division.

On 29 September 2021, the Group acquired the business of Subterranean (Manitoba) Ltd, for cash consideration of £7.8m. Subterranean is a geotechnical contractor in Manitoba, Canada.

On 1 November 2021, the Group acquired the business of Voges Drilling, a geotechnical foundation company based in Texas, for cash consideration of £1.4m. Further deferred consideration of £0.8m is payable over a three-year period.

Prior year balance sheet reclassification

As noted in the Audit and Risk Committee report, during 2021, the Financial Reporting Council (FRC) included the Group's annual report and accounts for the year ended 31 December 2020 in their thematic review of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', which resulted in the FRC requesting further information in respect of provisions for insurance and legal claims. The Group responded fully to the matters raised in the correspondence and have concluded that the insurance reimbursement receivables of the Group should be separately presented gross on the consolidated balance sheet, rather than netted off against the insurance and legal provision.

The Group has restated the relevant sections of this year's accounts to reflect this. The restatement impacted the balance sheet reported in the 2020 annual report and accounts as detailed in the accounting policies note on page 28. The restatement did not result in any changes to reported profit, earnings per share, net assets or the cash flows reported in the 2020 financial year.

Working capital

Net working capital increased by £3.1m (2020: decrease of £38.2m) reflecting the reversal of the working capital timing benefit achieved in 2020 due to the impact of COVID-19 on business activity and cash collections. The net movement comprised of an £18.3m increase in inventories and a £104.4m increase in trade and other receivables, offset by an increase in trade and other payables of £119.6m.

A reduction in provisions and retirement benefit liabilities increased the cash outflow in respect of working capital by £7.8m (2020: increase of £13.9m). This mainly comprises payments in respect of retirement benefits. The increase in insurance provisions that offsets with an increase in insurance receivables does not impact the cash flow statement. The £7.8m outflow excludes the cash outflow on restructuring provisions which is presented within non-underlying items in the free cash flow calculation.

Capital expenditure

The Group manages capital expenditure tightly whilst investing in the upgrade and replacement of equipment where appropriate. Net capital expenditure, excluding leased assets, of £74.6m (2020: £65.6m) was net of proceeds from the sale of equipment of £9.8m (2020: £7.4m). 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 127% (2020: 109%).

Free cash flow

The Group's free cash flow of £60.1m (2020: £134.2m) is more than sufficient to fund, in cash terms, the full value of the payment in relation to the total 2021 dividend of £25.9m (2020: £25.9m). The basis of deriving free cash flow is set out on page 18.

Financing facilities and net debt

The Group's total net debt of £193.3m (2020: £192.5m) comprises loans and borrowings and related derivatives of £200.6m (2020: £185.0m), lease liabilities of £75.4m (2020: £73.8m) net of cash and cash equivalents of £82.7m (2020: £66.3m). The Group's term debt and committed facilities principally comprise US private placements of $75m (£58.1m) which mature in 2024 and a £375m multi-currency syndicated revolving credit facility, which matures in November 2025. During the year, $50m (£36.2m) of US private placements matured and were repaid and in March 2021 the Group's unused £300m Covid Corporate Financing Facility (CCFF) was withdrawn. At the year end, the Group had undrawn committed and uncommitted borrowing facilities totalling £291.9m (2020: £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 0.8x (2020: 0.7x), 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 1.0x at 31 December 2021 (2020: 0.9x). Underlying EBITDA, excluding the impact of IFRS 16, to net finance charges was 30.5x (2020: 21.7x), well above the limit of 4.0x.

On an IFRS 16 basis, year-end gearing was 44% (2020: 47%).

The average month-end net debt during 2021, excluding IFRS 16 lease liabilities, was £147.6m (2020: £183.5m) and the minimum headroom during the year on the Group's main banking facility was £164.2m (2020: £129.4m), in addition to a cash balance at that time of £92.0m (2020: £80.8m). 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 is typically not significant.

At 31 December 2021 the Group had drawn upon uncommitted overdraft facilities of £0.9m (2020: £4.7m) and had drawn £150.4m of bank guarantee facilities (2020: £167.5m).

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 2021 year-end IAS 19 valuation of the UK scheme showed assets of £63.7m, liabilities of £58.3m and a pre-tax surplus of £5.4m before an IFRIC 14 adjustment to reflect the minimum funding requirement for the scheme, which adjusts the closing position to a deficit of £6.8m.

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 £15.9m at 31 December 2021 (2020: £19.0m). 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 £3.0m at 31 December 2021 (2020: £2.9m).

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:

	2021		2020	
	Closing	**Average**	Closing	Average
USD	**1.35**	**1.38**	1.37	1.28
CAD	**1.71**	**1.72**	1.74	1.72
EUR	**1.19**	**1.16**	1.12	1.12
SGD	**1.82**	**1.85**	1.81	1.77
AUD	**1.86**	**1.83**	1.78	1.86

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 and Singapore dollar.

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 2021 was 14.4% (2020: 16.4%).

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 2021 and the key areas of focus for 2022 are set out in the Strategic report within the Group’s Annual Report and Accounts.

Consolidated income statement

For the year ended 31 December 2021

		2021			2020		
	Note	**Underlying £m**	**Non-underlying items (note 8) £m**	**Statutory £m**	Underlying £m	Non-underlying items (note 8) £m	Statutory £m
Revenue	3,4	**2,224.4**	**—**	**2,224.4**	2,062.5	—	2,062.5
Operating costs	6	**(2,132.0)**	**(9.6)**	**(2,141.6)**	(1,953.2)	(29.6)	(1,982.8)
Amortisation of acquired intangible assets		**—**	**(2.8)**	**(2.8)**	—	(4.2)	(4.2)
Other operating income		**—**	**0.7**	**0.7**	—	0.7	0.7
Share of post-tax results of joint ventures	16	**0.4**	**(0.6)**	**(0.2)**	0.8	—	0.8
Operating profit/(loss)	3	**92.8**	**(12.3)**	**80.5**	110.1	(33.1)	77.0
Finance income	9	**0.4**	**—**	**0.4**	1.1	—	1.1
Finance costs	10	**(9.3)**	**—**	**(9.3)**	(14.3)	—	(14.3)
Profit/(loss) before taxation		**83.9**	**(12.3)**	**71.6**	96.9	(33.1)	63.8
Taxation	11	**(20.1)**	**10.6**	**(9.5)**	(28.3)	5.6	(22.7)
Profit/(loss) for the year		**63.8**	**(1.7)**	**62.1**	68.6	(27.5)	41.1
Attributable to:							
Equity holders of the parent		**64.7**	**(1.7)**	**63.0**	70.0	(27.5)	42.5
Non-controlling interests	33	**(0.9)**	**—**	**(0.9)**	(1.4)	—	(1.4)
		63.8	**(1.7)**	**62.1**	68.6	(27.5)	41.1
Earnings per share							
Basic	13	**89.5p**		**87.1p**	97.1p		58.9p
Diluted	13	**88.4p**		**86.1p**	96.3p		58.5p

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	**2021 £m**	2020 £m
Profit for the year		**62.1**	41.1
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange movements on translation of foreign operations		**(4.3)**	(5.9)
Transfer of translation reserve on disposal of subsidiaries		**(0.4)**	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	**1.2**	(2.2)
Tax on remeasurements of defined benefit pension schemes	11	**(0.2)**	0.4
Other comprehensive loss for the year, net of tax		**(3.7)**	(4.8)
Total comprehensive income for the year		**58.4**	36.3
Attributable to:			
Equity holders of the parent		**59.3**	37.9
Non-controlling interests		**(0.9)**	(1.6)
		58.4	36.3

Consolidated balance sheet

As at 31 December 2021

	Note	2021 £m	2020[1] £m
Assets			
Non-current assets			
Goodwill and intangible assets	14	**141.5**	118.8
Property, plant and equipment	15	**443.4**	434.9
Investments in joint ventures	16	**4.0**	4.4
Deferred tax assets	11	**13.0**	10.3
Other assets	17	**88.5**	60.3
		690.4	628.7
Current assets			
Inventories	18	**72.1**	60.1
Trade and other receivables	19	**592.0**	501.9
Current tax assets		**8.9**	2.1
Cash and cash equivalents	20	**82.7**	66.3
Assets held for sale	21	**3.4**	8.7
		759.1	639.1
Total assets	3	**1,449.5**	1,267.8
Liabilities			
Current liabilities			
Loans and borrowings	25	**(29.8)**	(67.0)
Current tax liabilities		**(17.9)**	(17.1)
Trade and other payables	22	**(505.7)**	(381.7)
Provisions	23	**(53.8)**	(54.4)
		(607.2)	(520.2)
Non-current liabilities			
Loans and borrowings	25	**(246.2)**	(191.8)
Retirement benefit liabilities	32	**(25.7)**	(31.1)
Deferred tax liabilities	11	**(28.6)**	(21.3)
Provisions	23	**(77.9)**	(71.4)
Other liabilities	24	**(21.2)**	(22.0)
		(399.6)	(337.6)
Total liabilities	3	**(1,006.8)**	(857.8)
Net assets	3	**442.7**	410.0
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		**11.6**	16.3
Other reserve	27	**56.9**	56.9
Retained earnings		**318.4**	280.1
Equity attributable to equity holders of the parent		**439.9**	406.3
Non-controlling interests	33	**2.8**	3.7
Total equity		**442.7**	410.0

1 Other assets, trade and other receivables and provisions presented here do not correspond to the published 2020 consolidated financial statements. The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers and customer retentions receivable in more than one year to other non-current assets, as outlined in note 2 to the financial statements.

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 7 March 2022.

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 2021

	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 2020	7.3	38.1	7.6	19.1	56.9	—	263.2	**392.2**	5.3	**397.5**
Profit/(loss) for the year	—	—	—	—	—	—	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 and 1 January 2021	7.3	38.1	7.6	16.3	56.9	—	280.1	**406.3**	3.7	**410.0**
Profit/(loss) for the year	—	—	—	—	—	—	63.0	**63.0**	(0.9)	**62.1**
Other comprehensive income										
Exchange movements on translation of foreign operations	—	—	—	(4.3)	—	—	—	**(4.3)**	—	**(4.3)**
Transfer of reserves on disposal of subsidiaries	—	—	—	(0.4)	—	—	—	**(0.4)**	—	**(0.4)**
Remeasurements of defined benefit pension schemes	—	—	—	—	—	—	1.2	**1.2**	—	**1.2**
Tax on remeasurements of defined benefit pension schemes	—	—	—	—	—	—	(0.2)	**(0.2)**	—	**(0.2)**
Other comprehensive (loss)/income for the year, net of tax	—	—	—	(4.7)	—	—	1.0	**(3.7)**	—	**(3.7)**
Total comprehensive (loss)/ income for the year	—	—	—	(4.7)	—	—	64.0	**59.3**	(0.9)	**58.4**
Dividends	—	—	—	—	—	—	(25.9)	**(25.9)**	—	**(25.9)**
Purchase of own shares for ESOP trust	—	—	—	—	—	—	(3.7)	**(3.7)**	—	**(3.7)**
Share-based payments	—	—	—	—	—	—	3.9	**3.9**	—	**3.9**
At 31 December 2021	**7.3**	**38.1**	**7.6**	**11.6**	**56.9**	**—**	**318.4**	**439.9**	**2.8**	**442.7**

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	**2021** £m	2020 £m
Cash flows from operating activities			
Profit before taxation		**71.6**	63.8
Non-underlying items	8	**12.3**	33.1
Finance income	9	**(0.4)**	(1.1)
Finance costs	10	**9.3**	14.3
Underlying operating profit	3	**92.8**	110.1
Depreciation of property, plant and equipment	15	**90.6**	94.3
Amortisation of intangible assets	14	**0.6**	0.6
Share of underlying post-tax results of joint ventures	16	**(0.4)**	(0.8)
Profit on sale of property, plant and equipment		**(1.8)**	(0.6)
Other non-cash movements		**8.3**	1.8
Foreign exchange losses		**0.1**	1.5
Operating cash flows before movements in working capital and other underlying items		**190.2**	206.9
(Increase)/decrease in inventories		**(18.3)**	7.1
(Increase)/decrease in trade and other receivables		**(104.4)**	111.1
Increase/(decrease) in trade and other payables		**119.0**	(80.0)
(Decrease)/increase in provisions, retirement benefit and other non-current liabilities		**(7.8)**	13.9
Cash generated from operations before non-underlying items		**178.7**	259.0
Cash inflows from non-underlying items: contract disputes		**—**	0.7
Cash inflows from non-underlying items: assets held for sale		**2.4**	—
Cash outflows from non-underlying items: restructuring costs		**(3.9)**	(11.7)
Cash outflows from non-underlying items: acquisition costs		**(0.5)**	—
Cash generated from operations		**176.7**	248.0
Interest paid		**(2.0)**	(8.8)
Interest element of lease rental payments		**(3.1)**	(3.8)
Income tax paid		**(15.9)**	(24.9)
Net cash inflow from operating activities		**155.7**	210.5
Cash flows from investing activities			
Interest received		**0.4**	0.6
Proceeds from sale of property, plant and equipment		**9.8**	7.4
Proceeds on disposal of businesses	5	**7.1**	2.2
Acquisition of businesses, net of cash acquired	5	**(29.9)**	—
Acquisition of property, plant and equipment	15	**(84.0)**	(72.5)
Acquisition of other intangible assets	14	**(0.4)**	(0.5)
Dividends received from joint ventures	16	**—**	0.4
Net cash outflow from investing activities		**(97.0)**	(62.4)
Cash flows from financing activities			
Increase in borrowings		**91.2**	10.4
Repayment of borrowings		**(69.4)**	(131.4)
Payment of lease liabilities		**(29.8)**	(27.2)
Purchase of own shares for ESOP trust		**(3.7)**	—
Dividends paid	12	**(25.9)**	(25.9)
Net cash outflow from financing activities		**(37.6)**	(174.1)
Net increase/(decrease) in cash and cash equivalents		**21.1**	(26.0)
Cash and cash equivalents at beginning of year		**61.6**	87.5
Effect of exchange rate movements		**(0.9)**	0.1
Cash and cash equivalents at end of year	20	**81.8**	61.6

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 2021 were authorised for issue in accordance with the resolution of the Directors on 7 March 2022.

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 2 Kingdom Street, London W2 6BD. 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

In accordance with the Companies Act 2006, these consolidated financial statements have been prepared and approved by the Directors in accordance with UK adopted international accounting standards. The company prepares its parent company financial statements in accordance with FRS 101.

These financial statements do not constitute the company's statutory accounts for the years ended 31 December 2021 or 2020 but are derived from the 2022 accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies. Those for 2021 will be delivered to the Registrar of Companies and made available on the company's website at www.keller.com. 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.

Going concern

As part of the going concern and 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 2024. The going concern review used the same downside scenarios and forecasts for the period through to the end of March 2023, a period of at least 12 months from when the financial statements are authorised for issue and aligning with the period in which the Group's banking covenants are tested. This process involved constructing scenarios to reflect the Group's current assessment of its principal risks, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties modelled by management align with those disclosed within this Annual Report and Accounts.

The following severe but plausible downside assumptions were modelled:

- 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.
- Not having the right skills to deliver reducing profits by 0.5% of revenue.
- A combination of other principal risks and trading risks materialising together reducing profits by up to £84.6m over the period to 31 December 2024. These risks include changing environmental factors, costs of ethical misconduct and regulatory non-compliance, occurrence of an accident causing serious injury to an employee or member of the public, the cost of a product or solution failure and the impact of a previously unrecorded tax liability.
- Deterioration of working capital performance by 5% of six months' sales.

The financial and cash effects of these scenarios 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. These include a range of cost-cutting measures and overhead savings designed to preserve cash flows. Even in the most extreme downside scenario modelled, including an aggregation of all risks considered, which showed a decrease in operating profit of 42.9% and an increase in net debt of 47.9% against the Group's latest forecast profit and cash flow projections for the review period up to 31 March 2023. 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 the period through to the end of March 2023, a period of at least 12 months from when the financial statements are authorised for issue. Accordingly, the consolidated financial statements are prepared on a going concern basis.

At 31 December 2021, the Group had undrawn committed and uncommitted borrowing facilities totalling £291.9m, comprising £219.8m of the unutilised portion of the revolving credit facility, £15.7m of other undrawn committed borrowing facilities and undrawn uncommitted borrowing facilities of £56.4m, as well as cash and cash equivalents of £82.7m. At 31 December 2021, the Group's net debt to underlying EBITDA ratio (calculated on an IAS 17 covenant basis) was 0.8x, well within the limit of 3.0x.

Climate change

In preparing the consolidated financial statements, management has considered the impact of climate change on a number of key estimates within the financial statements, including estimates of future cash flows used in impairment assessments of the carrying value of goodwill, recoverability of deferred assets and the useful economic life of plant, equipment and other intangible assets. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to March 2023 nor the viability of the Group over the next three years.

Prior year restatement

Insurance restatement

In October 2021, the Group received a letter from the Financial Reporting Council (FRC) as part of its regular review and assessment of the quality of corporate reporting in the UK, following the Group's inclusion in the 'Thematic review on Provisions, Contingent Liabilities and Contingent Assets'. The letter included a request for further information on the Group's Annual Report and Accounts for the year ended 31 December 2020. The review conducted by the FRC was based solely on the Group's published Annual Report and Accounts and does not provide any assurance that the Annual Report and Accounts are correct in all material respects.

Following finalisation of the correspondence with the FRC, the Directors have concluded that the insurance reimbursement receivables of the Group should be separately presented gross on the consolidated balance sheet, rather than netted off against the insurance and legal provision.

Retentions restatement

Separately from the above, the element of trade receivables relating to customer retentions expected to be received in more than one year was disclosed separately in the revenue note (note 4 to the consolidated financial statements) but classified incorrectly within the trade and other receivables balance sheet line. The Group has amended this disclosure and separately categorised this receivable within other non-current assets as detailed below.

As a result of these items, the consolidated balance sheet as at 31 December 2020 has been restated as follows:

Consolidated balance sheet

	2020 (as reported) £m	Insurance restatement £m	Retentions restatement £m	**2020 (restated) £m**
Non-current assets				
Other assets	25.9	24.2	10.2	**60.3**
Current assets				
Trade and other receivables	503.9	8.2	(10.2)	**501.9**
Current liabilities				
Provisions	(46.2)	(8.2)	—	**(54.4)**
Of which: Insurance and legal provisions	(12.6)	(8.2)	—	**(20.8)**
Other provisions	(33.6)	—	—	**(33.6)**
Non-current liabilities				
Provisions	(47.2)	(24.2)	—	**(71.4)**
Of which: Insurance and legal provisions	(26.9)	(24.2)	—	**(51.1)**
Other provisions	(20.3)	—	—	**(20.3)**

The restatement did not result in any change to reported profit, earnings per share, net assets or cash flows reported in the 2020 financial year.

The impact on the opening consolidated balance sheet as at 31 December 2019 is as follows:

Consolidated balance sheet

	2019 (as reported) £m	Insurance restatement £m	Retentions restatement £m	**2019 (restated) £m**
Non-current assets				
Other assets	22.3	9.1	32.4	**63.8**
Current assets				
Trade and other receivables	626.7	2.5	(32.4)	**596.8**
Current liabilities				
Provisions	(28.6)	(2.5)	—	**(31.1)**
Of which: Insurance and legal provisions	(6.9)	(2.5)	—	**(9.4)**
Other provisions	(21.7)	—	—	**(21.7)**
Non-current liabilities				
Provisions	(46.4)	(9.1)	—	**(55.5)**
Of which: Insurance and legal provisions	(25.8)	(9.1)	—	**(34.9)**
Other provisions	(20.6)	—	—	**(20.6)**

The restatement did not result in any change to reported profit, earnings per share, net assets or cash flows reported in the 2019 financial year.

Further details of the impact of the restatement can be found in notes 17,19 and 23 to the consolidated financial statements.

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

The following amendments became effective during the year to 31 December 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform Phase 2' (effective 1 January 2021).
- Amendments to IFRS 16 'COVID-19 Related Rent Concessions beyond 30 June 2021' (effective 1 April 2021).

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest Rate Benchmark Reform Phase 2' (IBOR*)*

In September 2019, the IASB issued the first accounting amendment to IFRS 9, IAS 39 and IFRS 7 related to the IBOR reform, which addresses the impact that the current uncertainty could have when applying specific hedge accounting requirements on applicable hedge relationships. The first phase of amendments to IFRS 9 provides temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reforms. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the current reporting period. The reliefs have meant that the uncertainty over the IBOR reforms has not resulted in the discontinuation of hedge accounting for any of the Group's fair value hedges.

Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 were issued by the IASB in August 2020 to provide practical expedients and reliefs in relation to modifications of financial instruments and leases that arise from the transition from IBORs to risk-free rates. Phase 2 also provides further reliefs to hedge accounting requirements. These amendments were effective for the Group from 1 January 2021.

The Group is monitoring and managing the transition to alternative benchmark rates that are linked to existing interest rate benchmarks related to borrowings, leases and derivative contracts. The impact of IBOR reform on the Group is assessed as being limited. The changes only apply to one hedge relationship associated with managing the fixed rate on the US private placement expiring in December 2024 (refer to note 25), for which the Group is exposed to a six-month USD LIBOR that will be available until June 2023. In 2021, the Group amended and restated the £375m syndicated revolving credit facility to replace any reference to IBOR with reference to applicable risk-free rates. There is no impact on the incremental borrowing rate for calculating leases liabilities.

Amendments to IFRS 16 'COVID-19 Related Rent Concessions beyond 30 June 2021'

On 28 May 2020, the IASB issued COVID-19 Related Rent Concessions amendments to IFRS 16 'Leases'. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

The Group has not received COVID-19 related rent concessions during the year, but plans to apply the practical expedient if it becomes applicable within the allowed period of application.

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 the translation reserve 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	**2021**	2020
US dollar	**1.38**	1.28
Canadian dollar	**1.72**	1.72
Euro	**1.16**	1.12
Singapore dollar	**1.85**	1.77
Australian dollar	**1.83**	1.86

Year end rates	**2021**	2020
US dollar	**1.35**	1.37
Canadian dollar	**1.71**	1.74
Euro	**1.19**	1.12
Singapore dollar	**1.82**	1.81
Australian dollar	**1.86**	1.78

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. Revenue is typically invoiced in stages during the contracts, however smaller contracts are usually invoiced on completion. Variable consideration and contract modifications are assessed on a contract-by-contract basis, according to the terms, facts and circumstances of the project. Variable consideration 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. In certain circumstances, uncertainty over whether a project will be completed or not will mean that it is not appropriate to recognise contracted revenues.

Revenue attributed to each performance obligation is recognised based on either the input or the output method. The output method is the Group's default revenue recognition approach. The input method is generally used for longer-term, more complex contracts. These methods best reflect the transfer of benefits to the customer.

- **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.
- **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.

Where the Group becomes aware that a loss may arise on a contract, and that loss is probable, full provision is made in the consolidated balance sheet; based on the estimated unavoidable costs of meeting the obligations of the contract, where these exceed the economic benefits expected to be received. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

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

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

Revenue from the sale of goods and services

The Group's revenue recognised from the sale of goods and services primarily relates to certain parts of the North 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 on 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.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods. Such provisions are based on management's best judgement of the probability of the outcome in reaching agreement with the relevant tax authorities. For further information refer to note 11.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Interest income and expense

All interest income and expense is recognised in the income statement on an accruals basis, 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 where applicable. 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. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. Where there is no legal right to a refund from the plan, the liability is calculated as the minimum funding requirement to the plan that exists at the balance sheet date.

The Group also 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.

Payments to defined contribution schemes are accounted for on an accruals basis.

Government subsidies

In an attempt to mitigate the impact of the COVID-19 pandemic, during the year some government bodies continued to provide direct subsidies to aid companies. Where the subsidy relates 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. In the prior year the Group was eligible for deferral of the employer's share of social security taxes in the United States. No additional deferrals took place in 2021. Further details are set out in notes 6 and 7.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Further details are set out in note 15 for impairments recognised in the year. Subsequent expenditure on property, plant and equipment is capitalised when it enhances or improves the condition of the item of property, plant and equipment beyond its original assessed standard of performance. Maintenance expenditure is expensed as incurred.

Depreciation

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	3 to 12 years
Motor vehicles	4 years
Computers	3 years

Depreciation is not provided for on freehold land.

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 assesses 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	3 to 15 years
Plant and equipment	2 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 lessee. Incremental borrowing rates applied to individual leases range from 0.9% to 33.0%.

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 as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the fair value at the acquisition date. Acquisition-related costs are expensed as incurred and included in administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired, including assets identified as intangibles on acquisition, is recorded as goodwill.

The results of subsidiaries which have been disposed are included up to the effective date of disposal.

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, any impairment losses are 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 (including internally generated software), customer relationships, customer contracts and trade names. 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 4 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, right-of-use assets 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, being the lower of their carrying amount and fair value less costs to sell, 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 allowance 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.

Write-downs to net realisable value are made for slow-moving, damaged or obsolete items based on evaluations made at the local level by reference to frequency of stock turnover or specific factors affecting the items concerned.

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, with reference to comparable market transactions. 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.

Trade receivables and contract assets are stated net of expected credit losses (ECLs). The initial ECLs are recognised on recognition of a receivable. This 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. For the lifetime ECL the Group uses a provision matrix.

Trade payables that are not interest bearing, are initially recognised at fair value and 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 balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, ie 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 other comprehensive income (OCI). 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.

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 employee-related liabilities, restructuring commitments, onerous contracts, insured liabilities and legal claims, and other property-related commitments. These are recognised as management’s best estimate of the expenditure required to settle the Group’s liability at the reporting date.

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. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost. Details of provisions are set out in note 23.

Provisions for insured liabilities and legal claims include the full estimated value of the liability. Any related insurance reimbursement asset that is virtually certain to be received is separately presented gross within trade and other receivables or other non-current assets on the consolidated balance sheet.

Contingent liabilities

Contingent liabilities are possible obligations of the Group of which the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated balance sheet, unless they are assumed by the Group as part of a business combination. They are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability on the balance sheet.

Contingent assets

Contingent assets are possible assets of the Group of which the timing and amount are subject to significant uncertainty. Contingent assets are not recognised in the consolidated balance sheet. They are however disclosed, when they are considered to be probable. A contingent asset is recognised in the financial statements when the inflow of economic benefits is virtually certain.

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 non-market conditions.

Shares purchased and held in trust in connection with the Group's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

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; and Asia-Pacific, Middle East and Africa 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. The geographical divisions were revised with effect from 1 January 2021; the Middle East and Africa (MEA) business was combined with the Asia-Pacific Division, creating the Asia-Pacific, Middle East and Africa Division, and the remaining Europe, Middle East and Africa Division became the Europe Division. The comparative information has been amended to reflect consistent basis of preparation.

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, restructuring costs and other non-trading amounts, including those relating to acquisitions and disposals. Tax arising on these items, including movement in deferred tax assets arising from non-underlying provisions, is also classified as a non-underlying item.

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. In the Group consolidated balance sheet this impacts contract assets, contract liabilities and contract provisions (refer to notes 4 and 23). As described in the policy the default revenue recognition approach is the output method. When revenue is recognised based on the output method, 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 2021, at an average revenue of approximately £375,000 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 total 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 total costs incurred on 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. However, due to the level of uncertainty and timing across a large portfolio of contracts, which will be at different stages of their contract life, it is not practical to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level. 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.

In the case of loss-making contracts, a full provision is made based on the estimated unavoidable costs of meeting the obligations of the contract, where these exceed the economic benefits expected to be received. The process for estimating the total cost to complete is the same as for in progress profitable contracts, and will include management's best estimate of all labour, equipment and materials costs required to complete the contracted work. All cost to complete estimates involve judgement over the likely future cost of labour, equipment and materials and the impact of inflation is included if material.

As stated in the revenue recognition accounting policy, variable consideration is assessed on a contract-by-contract basis, according to the terms, facts and circumstances of the project. Variable consideration is recognised only to the extent that it is highly probable that there will not be a significant reversal; management judgement is required in order to determine when variable consideration is highly probable. Uncertainty over whether a project will be completed or not can mean that it is appropriate to treat the contracted revenue as variable consideration.

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 Group estimates the recoverable amount based on value-in-use calculations. The value-in-use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the relevant budget and forecasts for the next three years, including a terminal value assumption. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows, growth rates and maintainable earnings assumed within the calculation. Refer to note 14 for further information.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and other timing differences 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 (based on the same Board-approved information to support the going concern and goodwill impairment assessments). 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.

Insurance and legal provisions

The recognition of provisions for insurance and legal disputes is subject to a significant degree of estimation. In making its estimates, management seek specialist input from legal advisers and the Group's insurance claims handler to estimate the most likely legal outcome. 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.

	2021		2020[1]	
	Revenue	**Operating profit**	Revenue	Operating profit
	£m	**£m**	£m	£m
North America	**1,323.1**	**73.0**	1,227.5	83.2
Europe	**549.2**	**24.3**	538.5	18.4
Asia-Pacific, Middle East and Africa	**352.1**	**3.4**	296.5	15.5
	2,224.4	**100.7**	2,062.5	117.1
Central items	**—**	**(7.9)**	—	(7.0)
Underlying	**2,224.4**	**92.8**	2,062.5	110.1
Non-underlying items (note 8)	**—**	**(12.3)**	—	(33.1)
	2,224.4	**80.5**	2,062.5	77.0

	2021					
	Segment assets	**Segment liabilities**	**Capital employed**	**Capital additions**	**Depreciation[3] and amortisation**	**Tangible[4] and intangible assets**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
North America	**827.0**	**(349.9)**	**477.1**	**36.4**	**46.1**	**334.7**
Europe	**273.9**	**(184.7)**	**89.2**	**23.8**	**25.0**	**143.7**
Asia-Pacific, Middle East and Africa	**218.0**	**(99.9)**	**118.1**	**24.2**	**19.5**	**103.5**
	1,318.9	**(634.5)**	**684.4**	**84.4**	**90.6**	**581.9**
Central items[2]	**130.6**	**(372.3)**	**(241.7)**	**—**	**0.6**	**3.0**
	1,449.5	**(1,006.8)**	**442.7**	**84.4**	**91.2**	**584.9**

	2020[1,5]					
	Segment assets	Segment liabilities	Capital employed	Capital additions	Depreciation[3] and amortisation	Tangible[4] and intangible assets
	£m	£m	£m	£m	£m	£m
North America	690.2	(228.2)	462.0	26.9	47.7	304.0
Europe	275.5	(197.8)	77.7	24.6	25.9	147.3
Asia-Pacific, Middle East and Africa	224.6	(98.7)	125.9	21.5	20.7	101.8
	1,190.3	(524.7)	665.6	73.0	94.3	553.1
Central items[2]	77.5	(333.1)	(255.6)	—	0.6	0.6
	1,267.8	(857.8)	410.0	73.0	94.9	553.7

1 From 1 January 2021 the Middle East and Africa (MEA) business was transferred to the Asia-Pacific Division, creating the Asia-Pacific, Middle East and Africa Division, and the remaining Europe, Middle East and Africa Division became the Europe Division. The 2020 comparative segmental information has been updated to reflect this change as it is consistent with the information reviewed by the Chief Operating Decision Maker.
2 Central items include net debt and tax balances, which are managed by the Group.
3 Depreciation and amortisation excludes amortisation of acquired intangible assets.
4 Tangible and intangible assets comprise goodwill, intangible assets and property, plant and equipment.
5 Segment assets and liabilities presented here do not correspond to the published 2020 consolidated financial statements. The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers, as outlined in note 2 to the financial statements.

Revenue analysed by country:

	2021	2020
	£m	£m
United States	**1,197.6**	1,112.0
Australia	**202.4**	158.9
Germany	**110.0**	116.9
Canada	**125.1**	113.3
United Kingdom	**100.4**	59.1
Other	**488.9**	502.3
	2,224.4	2,062.5

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 2021			Year ended 31 December 2020		
	Revenue recognised on performance obligations satisfied over time £m	Revenue recognised on performance obligations satisfied at a point in time £m	Total revenue £m	Revenue recognised on performance obligations satisfied over time £m	Revenue recognised on performance obligations satisfied at a point in time £m	Total revenue £m
North America	**1,005.0**	**318.1**	**1,323.1**	944.0	283.5	1,227.5
Europe	**549.2**	**—**	**549.2**	538.5	—	538.5
Asia-Pacific, Middle East and Africa	**352.1**	**—**	**352.1**	296.5	—	296.5
	1,906.3	**318.1**	**2,224.4**	1,779.0	283.5	2,062.5

The final contract value will not always have been agreed at the year end. The contract value, and therefore revenue allocated to a performance obligation, may change subsequent to the year end as variations and claims are agreed with the customer. The amount of revenue recognised in 2021 from performance obligations satisfied in previous periods is £28.0m (2020: £21.5m).

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 2021, the total order book is £1,296.7m (2020: £1,000.2m).

The order book for contracts with a total duration over one year is £402.0m (2020: £295.8m). Revenue on these contracts is expected to be recognised as follows:

	2021 £m	2020 £m
Less than one year	**279.7**	185.0
One to two years	**103.7**	99.8
More than two years	**18.6**	11.0
	402.0	295.8

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

	2021 £m	2020 £m
Trade receivables	**448.8**	383.2
Contract assets	**107.6**	71.3
Contract liabilities	**(46.5)**	(43.9)

Trade receivables include invoiced amounts for retentions, which are balances typically payable at the end of a construction project, when all contractual performance obligations have been met, and are therefore received over a longer period of time. Included in the trade receivables balance is £85.9m (2020: £87.5m) in respect of retentions anticipated to be receivable within one year. Included in non-current other assets is £24.4m (2020: £10.2m) anticipated to be receivable 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:

	2021		2020	
	Contract assets £m	Contract liabilities £m	Contract assets £m	Contract liabilities £m
As at 1 January	**71.3**	**(43.9)**	102.1	(42.0)
Revenue recognised in the current year	**654.2**	**516.0**	597.1	619.2
Acquired with businesses	**2.0**	**(0.3)**	—	—
Disposal of businesses	**—**	**—**	(2.4)	0.5
Amounts transferred to trade receivables	**(619.5)**	**—**	(624.3)	—
Cash received/invoices raised for performance obligations not yet satisfied	**—**	**(518.3)**	—	(623.1)
Exchange movements	**(0.4)**	**—**	(1.2)	1.5
As at 31 December	**107.6**	**(46.5)**	71.3	(43.9)

5 Acquisitions and disposals

Acquisitions

On 13 July 2021, the Group acquired 100% of the issued share capital of RECON Services Inc., a geotechnical environmental remediation and industrial services company based in Texas, US, for an initial cash consideration of £20.2m (US$27.8m). Following the finalisation of the acquired working capital, an adjustment of £0.1m (US$0.2m) was agreed with the vendor, reducing the consideration paid. In addition, contingent consideration is payable in respect of certain contract awards; the total fair value of the contingent consideration is £9.5m (US$13.1m) of which £1.5m has been paid and £8.0m is recognised as contingent consideration payable at year end. This amount has been agreed in principle with the vendor (refer to note 34).The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition, customer relationships and the trade name. Goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce, the expectation of future contracts, customer relationships and the operating synergies that arise from the Group's strengthened market position. None of the goodwill is expected to be deductible for tax purposes. Acquisition costs of £0.2m were expensed to the income statement as a non-underlying item.

On 29 September 2021, the Group acquired the trade and assets of Subterranean (Manitoba) Ltd., a geotechnical contractor in Canada, for an initial cash consideration of £7.8m (CAD$13.4m). Following the finalisation of the acquisition, a working capital true-up of £0.2m (CAD$0.3m) is receivable, resulting in a net consideration of £7.6m (CAD$13.1m). Goodwill arising on acquisition is attributable to the expectation of future contracts and customer relationships and the operating synergies that arise from the Group's strengthened market position. The goodwill is expected to be deductible for tax purposes. Acquisition costs of £0.3m were expensed to the income statement as a non-underlying item.

On 1 November 2021, the Group acquired the trade and assets of Voges Drilling, a geotechnical foundation company based in Texas, US, for an initial cash consideration of £1.4m (US$2.0m) and a further £0.8m (US$1.0m) of deferred consideration to be paid over a three-year period.

For the Subterranean acquisition, £2.2m was provided for against contractual trade receivables acquired of £4.1m, resulting in a fair value of £1.9m. For RECON and Voges, the fair value of the total trade receivables is not materially different from the gross contractual amounts receivable and is expected to be recovered in full.

In the period to 31 December 2021, in total, acquisitions contributed £46.2m to revenue and a underlying profit before tax of £1.4m, as broken down below:

	Revenue	Underlying profit/(loss) before tax
	£m	£m
RECON	**42.8**	**1.5**
Subterranean	**3.3**	**(0.2)**
Voges	**0.1**	**0.1**
	46.2	**1.4**

Had the acquisitions taken place on 1 January 2021, total Group revenue would have been £2,270.2m and underlying profit before tax for the period would have been £82.5m, as broken down below:

	Revenue	Underlying profit/(loss) before tax
	£m	£m
Group balance for the year to 31 December 2021	**2,224.4**	**83.9**
RECON	**28.9**	**(2.4)**
Subterranean	**16.3**	**1.0**
Voges	**0.6**	**—**
	2,270.2	**82.5**

Adjustments made in respect of the acquisitions in the period to 31 December 2021 for intangible asset valuations, trade and other receivables and contingent consideration are provisional pending completion of the valuation exercise and agreement of any contingent consideration and will be finalised within 12 months of the acquisition date.

The identifiable assets and liabilities as at the date of acquisition were:

	RECON			Subterranean and Voges			Total
	Carrying amount £m	Fair value adjustment £m	**Fair value £m**	Carrying amount £m	Fair value adjustment £m	**Fair value £m**	**Fair value £m**
Assets							
Intangible assets	—	18.9	**18.9**	0.3	0.1	**0.4**	**19.3**
Property, plant and equipment	4.3	0.4	**4.7**	7.9	(1.8)	**6.1**	**10.8**
Other non-current assets	0.1	—	**0.1**	—	—	**—**	**0.1**
Inventories	—	—	**—**	1.4	(1.4)	**—**	**—**
Trade and other receivables	20.5	(0.1)	**20.4**	4.9	(2.2)	**2.7**	**23.1**
Current tax assets	1.4	—	**1.4**	—	—	**—**	**1.4**
Cash and cash equivalents	0.9	—	**0.9**	—	—	**—**	**0.9**
	27.2	19.2	**46.4**	14.5	(5.3)	**9.2**	**55.6**
Liabilities							
Lease liabilities	(1.4)	—	**(1.4)**	—	—	**—**	**(1.4)**
Trade and other payables	(11.0)	(0.2)	**(11.2)**	(1.3)	—	**(1.3)**	**(12.5)**
Current tax liabilities	(1.1)	—	**(1.1)**	—	—	**—**	**(1.1)**
Deferred tax liabilities	—	(5.1)	**(5.1)**	—	—	**—**	**(5.1)**
Provisions	(0.1)	(1.3)	**(1.4)**	—	—	**—**	**(1.4)**
Other non-current liabilities	(0.3)	—	**(0.3)**	—	—	**—**	**(0.3)**
	(13.9)	(6.6)	**(20.5)**	(1.3)	—	**(1.3)**	**(21.8)**
Total identifiable net assets	13.3	12.6	**25.9**	13.2	(5.3)	**7.9**	**33.8**
Goodwill			**3.7**			**1.9**	**5.6**
Total consideration			**29.6**			**9.8**	**39.4**
Satisfied by:							
Initial cash consideration			**20.2**			**9.2**	**29.4**
Contingent consideration			**9.5**			**—**	**9.5**
Deferred consideration			**—**			**0.8**	**0.8**
Purchase price adjustment			**(0.1)**			**(0.2)**	**(0.3)**
			29.6			**9.8**	**39.4**
Acquisition of businesses per the cash flow statement:							
Initial cash consideration			**20.2**			**9.2**	**29.4**
Contingent consideration paid			**1.5**			**—**	**1.5**
Purchase price adjustment received			**(0.1)**			**—**	**(0.1)**
Less cash acquired			**(0.9)**			**—**	**(0.9)**
			20.7			**9.2**	**29.9**

Disposals

On 28 June 2021, the Group disposed of its Cyntech Anchors operation in Canada, being 100% of the issued share capital of Keller Cyntech U.S. and Cyntech Anchors Ltd., for a total consideration of £6.0m (CAD$10.2m), consisting of the sale price of £3.1m (CAD$5.3m) and further sale price adjustments in relation to working capital of £2.9m (CAD$4.9m).

	Cyntech Anchors £m
Proceeds	**3.1**
Sale price adjustments	**2.9**
Net disposal proceeds	**6.0**
Net assets disposed (see below)	**(6.6)**
Currency translation gains transferred from translation reserve	**0.4**
Non-underlying loss on disposal	**(0.2)**

	Cyntech Anchors £m
Property, plant and equipment	**1.4**
Inventories	**3.9**
Trade and other receivables	**13.1**
Trade and other payables	**(10.7)**
Other net liabilities	**(1.3)**
Net assets disposed	**6.6**

The results for the period are presented below. The 2021 results represent activity prior to the sale.

	Cyntech Anchors	
	2021	2020
	£m	£m
Revenue	**11.1**	19.1
Operating costs	**(10.0)**	(18.6)
	1.1	0.5

On 8 January 2021, the Group disposed of its Colcrete business, being 100% of the issued share capital of Keller Colcrete Limited, for a cash consideration of £0.4m. Property, plant and equipment of £0.2m and inventories of £0.2m were disposed of. These assets were classified as held for sale at 31 December 2020. During the prior year a loss of £0.4m was recognised, relating to the write-down of Colcrete assets and restructuring costs associated with the exit.

Prior year 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 of £0.5m (BRL3.0m). Additional consideration of £0.9m (BRL6.5m) was received in September 2020, resulting in a loss of disposal of £9.2m at 31 December 2020. During 2021 there was a true-up to the sale price of £0.3m, increasing the non-underlying loss on disposal to £9.5m.

On 11 September 2020, the Group disposed of Wannenwetsch GmbH, a non-core business in Germany, for a cash consideration of £2.4m (EUR2.6m). The loss on disposal at 31 December 2020 was £0.9m. During the current year contingent consideration of £0.7m was received in accordance with the terms of the sale and purchase agreement, reducing the non-underlying loss on disposal to £0.2m.

Disposal of businesses per the cash flow statement:

	£m
Cyntech Anchors net proceeds	**6.0**
Colcrete proceeds	**0.4**
Wannenwetsch contingent consideration	**0.7**
	7.1

6 Operating costs

	Note	2021 £m	2020 £m
Raw materials and consumables		**711.8**	597.7
Staff costs	7	**580.7**	572.4
Other operating charges		**593.5**	549.8
Amortisation of intangible assets	14	**0.6**	0.6
Expenses relating to short-term leases and leases of low-value assets		**154.8**	138.4
Depreciation:			
Owned property, plant and equipment	15a	**64.1**	66.3
Right-of-use assets	15b	**26.5**	28.0
Underlying operating costs		**2,132.0**	1,953.2
Non-underlying items	8	**9.6**	29.6
Statutory operating costs		**2,141.6**	1,982.8
Other operating charges include:			
Redundancy and other reorganisation costs		**—**	0.2
Fees payable to the company's auditor for the audit of the company's Annual Report and Accounts		**1.1**	0.9
Fees payable to the company's auditor for other services:			
The audit of the company's subsidiaries, pursuant to legislation		**1.9**	1.7
Other assurance services		**0.1**	0.1

During the year, the Group received £2.4m (2020: £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. During the year, the amount received in 2020 in relation to the UK furlough scheme was repaid; this cost was provided for within operating costs at 31 December 2020.

7 Employees

The aggregate staff costs of the Group were:

	2021 £m	2020 £m
Wages and salaries	**505.6**	498.1
Social security costs	**57.5**	59.7
Other pension costs	**13.7**	12.2
Share-based payments	**3.9**	2.4
	580.7	572.4

These costs include Directors' remuneration. Fees payable to Non-executive Directors totalled £0.5m (2020: £0.5m).

In the United States, the Coronavirus Aid, Relief, and Economic Security Act allowed 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 was paid on 3 January 2022 and the remainder is due by January 2023. At 31 December 2021, the amount deferred is £4.7m.

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

	2021 Number	2020[1] Number
North America	**4,722**	4,305
Europe	**2,922**	3,034
Asia-Pacific, Middle East and Africa	**2,080**	1,970
	9,724	9,309

1 From 1 January 2021 the Middle East and Africa (MEA) business was transferred to the Asia-Pacific Division, creating the Asia-Pacific, Middle East and Africa Division, and the remaining Europe, Middle East and Africa Division became the Europe Division. The 2020 comparative information has been updated to reflect this change.

8 Non-underlying items

Non-underlying items include items which are exceptional by their size and/or are non-trading in nature, including amortisation of acquired intangibles, restructuring costs and other non-trading amounts, including those relating to acquisitions and disposals. Tax arising on these items, including movement in deferred tax assets arising from non-underlying provisions, is also classified as a non-underlying item. These are detailed below:

	2021 £m	2020 £m
Exceptional restructuring costs	**7.3**	16.6
Loss on disposal of operations	**0.5**	11.6
Acquisition costs	**0.5**	0.3
Contingent consideration: additional amounts provided	**1.3**	0.8
Goodwill impairment	**—**	0.3
Non-underlying items in operating costs	**9.6**	29.6
Amortisation of acquired intangible assets	**2.8**	4.2
Contingent consideration received	**(0.7)**	—
Exceptional contract dispute	**—**	(0.7)
Non-underlying items in other operating income	**(0.7)**	(0.7)
Amortisation of joint venture acquired intangibles	**0.6**	—
Total non-underlying items in operating profit	**12.3**	33.1
Non-underlying finance costs	**—**	—
Total non-underlying items before taxation	**12.3**	33.1
Taxation	**(10.6)**	(5.6)
Total non-underlying items after taxation	**1.7**	27.5

Non-underlying items in operating costs

Year ended 31 December 2021
Exceptional restructuring costs for the year of £7.3m comprised £4.4m in Europe, £2.5m in Asia-Pacific, Middle East and Africa, £1.6m of central items and a credit of £1.2m in North America.

In Europe, these costs arose as a continuation of the strategic project to rationalise the Europe Division. The restructuring costs during the period comprised redundancy costs, property costs, asset impairments and costs of market exit which include project termination costs. In Asia-Pacific, Middle East and Africa these costs arose as part of the project to rationalise the Middle East and Africa business. The restructuring costs during the period comprised mainly assets impairments and redundancy costs. Centrally, restructuring costs were incurred in KGS, the in-house equipment manufacturer, as a result of a restructuring plan for this business. These costs comprised redundancy costs and asset impairments. In North America the credit arose from the reduction in restructuring costs provided for in 2020 as costs incurred were lower than originally anticipated.

The Cyntech Anchors operation in Canada was disposed of on 28 June 2021, resulting in a net loss on disposal of £0.2m. During 2021 there was a true-up of the sale price of the Brazil disposal reflected in 2020, resulting in an additional loss of £0.3m in the year. This increased the total non-underlying loss on disposal for this transaction to £9.5m.

Acquisition costs of £0.5m in the year comprised professional fees relating to the RECON and Subterranean acquisitions.

Additional contingent consideration payable of £1.3m relates to the acquisition of the Geo Construction Group (Bencor) in 2015, following finalisation of items referenced in the sale and purchase agreement.

Additional contingent consideration of £0.7m was received on the achievement of performance targets in relation to the Wannenwetsch disposal in 2020, reducing the total loss on disposal to £0.2m.

Year ended 31 December 2020
In 2020, restructuring costs of £16.6m comprised £5.5m in North America, as a result of exiting the Prairies region in Canada and a specific market rationalisation exercise in the US, £11.0m in Europe, Middle East and Africa (now Europe) was incurred as a result of the strategic project to rationalise the division and a net charge of £0.1m in Asia-Pacific (now Asia-Pacific, Middle East and Africa) related to the cessation of the Waterway operation, offset by a restructuring provision release in ASEAN in relation to the activities started in the second half of 2018.

In 2020, 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 (which comprised £1.1m loss on sale of the Eurodrill assets and £0.4m provisions in relation to the sale of the Colcrete business which completed in 2021), and a £0.9m loss on the disposal of Wannenwetsch GmbH, a non-core business in Germany.

In 2020, acquisition costs of £0.3m related to professional fees associated with the wind-up of an employee share ownership plan at Moretrench, following acquisition in March 2018.

In 2020, the contingent consideration payable of £0.8m related to the acquisition of the Geo Instruments US business in 2017. The goodwill impairment of £0.3m related to the Genco business in Egypt.

Amortisation of acquired intangible assets
Amortisation of acquired intangible assets primarily relates to the Moretrench and RECON acquisitions. The prior year charge also includes amounts related to the Austral acquisition.

Non-underlying items in other operating income
The proceeds of £0.7m in the previous year were received on final settlement of a contributory claim relating to an exceptional contract dispute.

Amortisation of joint venture acquired intangibles
Amortisation of joint venture intangibles relates to the acquisition of NordPile by the Group's joint venture interest KFS Finland Oy during the year. Refer to note 16 for further details.

Non-underlying taxation
Refer to note 11 for details of the non-underlying tax items.

9 Finance income

	2021 **£m**	2020 £m
Bank and other interest receivable	**0.2**	0.3
Other finance income	**0.2**	0.8
	0.4	1.1

10 Finance costs

	2021 **£m**	2020 £m
Interest payable on bank loans and overdrafts	**3.1**	4.9
Interest payable on other loans	**1.3**	2.4
Interest on lease liabilities	**3.1**	3.8
Net pension interest cost	**0.2**	0.3
Other interest costs	**1.0**	1.6
Total interest costs	**8.7**	13.0
Unwinding of discount and effect of changes in discount rates on provisions	**0.6**	1.3
Total finance costs	**9.3**	14.3

11 Taxation

	2021 £m	2020 £m
Current tax expense:		
Current year	**14.0**	24.3
Prior years	**(3.0)**	(0.8)
Total current tax	**11.0**	23.5
Deferred tax expense:		
Current year	**(1.7)**	(1.2)
Prior years	**0.2**	0.4
Total deferred tax	**(1.5)**	(0.8)
	9.5	22.7

UK corporation tax is calculated at 19% (2020: 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% (2020: 19%) as follows:

	2021			2020		
	Underlying £m	**Non-underlying items (note 8) £m**	**Statutory £m**	Underlying £m	Non-underlying items (note 8) £m	Statutory £m
Profit/(loss) before tax	**83.9**	**(12.3)**	**71.6**	96.9	(33.1)	63.8
UK corporation tax charge/(credit) at 19% (2020: 19%)	**15.9**	**(2.3)**	**13.6**	18.4	(6.3)	12.1
Tax charged at rates other than 19% (2020: 19%)	**5.5**	**(0.5)**	**5.0**	5.6	(0.8)	4.8
Tax losses and other deductible temporary differences not recognised	**3.3**	**1.2**	**4.5**	6.5	1.6	8.1
Utilisation of tax losses and other deductible temporary differences previously unrecognised	**(1.4)**	**(9.1)**	**(10.5)**	(1.9)	(1.3)	(3.2)
Permanent differences	**(0.5)**	**0.1**	**(0.4)**	(0.2)	2.3	2.1
Adjustments to tax charge in respect of previous periods	**(2.8)**	**—**	**(2.8)**	0.2	(0.6)	(0.4)
Other	**0.1**	**—**	**0.1**	(0.3)	(0.5)	(0.8)
Tax charge/(credit)	**20.1**	**(10.6)**	**9.5**	28.3	(5.6)	22.7
Effective tax rate	**24.0%**	**86.2%**	**13.3%**	29.2%	16.9%	35.6%

The tax credit of £10.6m on non-underlying losses includes £1.5m as the tax benefit of amounts which are expected to be deductible for tax purposes and £9.1m from the partial reduction in the valuation allowance made against deferred tax assets in Canada and Australia at 31 December 2020. As the original valuation allowance was booked through the non-underlying tax charge the credit from the re-recognition of the deferred tax assets has also been treated as a non-underlying item. 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 of the probability of the outcome in reaching agreement with the relevant tax authorities. Where tax positions are uncertain, provision is made where necessary based on interpretation of legislation, management experience and appropriate professional advice. Management do not expect the outcome of these estimates to be materially different from the position taken.

The Group is monitoring developments in the OECD's Pillar 2 proposals to agree minimum effective tax rates across jurisdictions participating in the OECD programme. Although the Group's activities are mainly in territories which will be unaffected by the Pillar 2 proposals it is possible that additional tax will be charged in the future in countries where corporate tax rates are increased. Any changes are not expected to be introduced before 2024.

Under draft proposals introduced to the US Congress in 2021, the Group would potentially be subject to adverse changes in respect of measures intended to limit the tax deductibility of intra-group financing costs. The proposed measures were unable to secure passage through Congress in 2021 and the Group is awaiting developments to see if the measures, and whether they are in original or revised form, are reintroduced in 2022. At present there is insufficient evidence to assess the probable financial impact on the Group's future tax position.

The Group has previously disclosed that it has been subject to enquiries from the UK tax authorities in relation to the recovery of tax benefits under EU State Aid provisions. The Group has now received notification from HMRC that their enquiries have been resolved and the original filing position has been accepted. Accordingly, the contingent liability of £4m previously disclosed has been extinguished.

The following are the major deferred tax liabilities and assets recognised by the Group and the movements 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[1] temporary differences £m	**Total £m**
At 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 and 1 January 2021	(10.9)	34.4	(4.0)	(6.5)	(6.2)	4.2	**11.0**
(Credit)/charge to the income statement	(6.4)	3.2	(0.7)	0.3	(2.4)	4.5	**(1.5)**
Charge to other comprehensive income	—	—	0.2	—	—	—	**0.2**
Acquisition and disposal of businesses	—	0.3	—	—	—	4.7	**5.0**
Exchange movements	0.1	0.3	0.2	(0.1)	(0.1)	0.2	**0.6**
Other reallocations/transfers	—	—	0.1	—	—	0.2	**0.3**
At 31 December 2021	**(17.2)**	**38.2**	**(4.2)**	**(6.3)**	**(8.7)**	**13.8**	**15.6**

1 Other temporary differences are mainly in respect of intangible assets.

Deferred tax assets include amounts of £13.0m (2020: £10.4m) 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 (£6.7m), Australia (£4.2m) and UK (£1.6m). The amount of profits in each territory which are necessary to be realised over the forecast period to support these assets are £25m, £14m and £8m respectively. Canadian tax rules currently allow tax losses to be carried forward up to 20 years. UK and Australia allow 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:

	2021 £m	2020 £m
Deferred tax liabilities	**28.6**	21.3
Deferred tax assets	**(13.0)**	(10.3)
	15.6	11.0

At the balance sheet date, the Group had unused tax losses of £125.0m (2020: £146.4m), 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, £74.3m (2020: £85.2m) 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 £13.9m (2020: £24.7m). These differences have no expiry term.

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 £124.9m (2020: £118.4m), 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 £7.6m (2020: £7.4m).

12 Dividends payable to equity holders of the parent

Ordinary dividends on equity shares:

	2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2020 of 23.3p (2019: 23.3p) per share	**16.8**	16.8
Interim dividend for the year ended 31 December 2021 of 12.6p (2020: 12.6p) per share	**9.1**	9.1
	25.9	25.9

The Board has recommended a final dividend for the year ended 31 December 2021 of £16.8m, representing 23.3p (2020: 23.3p) per share. The proposed dividend is subject to approval by shareholders at the Annual General Meeting on 18 May 2022 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	
	2021	2020	**2021**	2020
Basic and diluted earnings (£m)	**64.7**	70.0	**63.0**	42.5
Weighted average number of ordinary shares (m)[1]				
Basic number of ordinary shares outstanding	**72.3**	72.1	**72.3**	72.1
Effect of dilution from:				
Share options and awards	**0.9**	0.6	**0.9**	0.6
Diluted number of ordinary shares outstanding	**73.2**	72.7	**73.2**	72.7
Earnings per share				
Basic earnings per share (p)	**89.5**	97.1	**87.1**	58.9
Diluted earnings per share (p)	**88.4**	96.3	**86.1**	58.5

1 The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year. The weighted average number of shares excludes those held in the Employee Share Ownership Plan Trust and those held in treasury, which for the purpose of this calculation are treated as cancelled.

14 Goodwill and intangible assets

	Goodwill £m	Arising on acquisition £m	Other £m	**Total £m**
Cost				
At 1 January 2020	228.6	59.0	23.4	**311.0**
Additions	—	—	0.5	**0.5**
Disposal of businesses	(7.2)	—	—	**(7.2)**
Exchange movements	(1.8)	(0.1)	(0.6)	**(2.5)**
At 31 December 2020 and 1 January 2021	219.6	58.9	23.3	**301.8**
Additions	—	—	0.4	**0.4**
Acquired with businesses (note 5)[1]	5.6	19.3	—	**24.9**
Disposals	—	—	(0.7)	**(0.7)**
Exchange movements	1.1	0.5	(0.6)	**1.0**
At 31 December 2021	**226.3**	**78.7**	**22.4**	**327.4**
Accumulated amortisation and impairment				
At 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 businesses	(7.2)	—	—	**(7.2)**
Exchange movements	(0.5)	(0.1)	(0.6)	**(1.2)**
At 31 December 2020 and 1 January 2021	104.4	56.5	22.1	**183.0**
Amortisation charge for the year	—	2.8	0.6	**3.4**
Disposals	—	—	(0.7)	**(0.7)**
Exchange movements	0.6	(0.1)	(0.3)	**0.2**
At 31 December 2021	**105.0**	**59.2**	**21.7**	**185.9**
Carrying amount				
At 1 January 2020	116.8	6.6	1.3	**124.7**
At 31 December 2020 and 1 January 2021	115.2	2.4	1.2	**118.8**
At 31 December 2021	**121.3**	**19.5**	**0.7**	**141.5**

1 Goodwill arising on acquisition relates to the acquisition of RECON and Subterranean. Refer to note 5 for further details.

Intangible assets arising on acquisition represent customer contracts and relationships with a carrying amount of £13.9m (2020: £0.3m) and trade names with a carrying amount of £5.6m (2020: £2.1m). Other intangibles represent internally developed software and licences. There are no indicators of impairment for these assets at 31 December 2021.

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 92% of the total (2020: 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:

		2021			2020		
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	**45.0**	**11.6**	**2.0**	44.4	13.0	2.0
Suncoast	North America	**31.9**	**11.6**	**2.0**	31.4	13.3	2.0
Keller Canada	North America	**15.0**	**11.8**	**2.0**	12.8	12.6	2.0
Keller Limited	Europe	**12.1**	**10.1**	**3.0**	12.1	12.7	3.0
Austral	Asia-Pacific, Middle East and Africa	**7.3**	**12.9**	**2.0**	7.6	14.2	2.0
Other[1]	North America and Europe	**10.0**			6.9		
		121.3			115.2		

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 2022 and financial projections for 2023 and 2024 were approved by the Board, and have been used as the basis for input into the value-in-use calculation.

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 2024 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.

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 each of the key assumptions that, in isolation, 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	24.5	39.3	85.9
Suncoast	North America	63.7	740.0	108.0
Keller Canada	North America	9.5	11.9	60.0
Keller Limited	Europe	5.0	6.0	48.9
Austral	Asia-Pacific, Middle East and Africa	21.4	35.8	84.8

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

15 Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

	Note	**2021** £m	2020 £m
Property, plant and equipment – owned assets	15a	**375.5**	365.4
Right-of-use assets – leased assets	15b	**67.9**	69.5
At 31 December		**443.4**	434.9

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 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[1]	(0.5)	(23.3)	—	**(23.8)**
Disposal of businesses	(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 and 1 January 2021	68.9	878.7	7.3	**954.9**
Additions	3.4	79.3	1.3	**84.0**
Acquired with businesses (note 5)	0.7	8.7	—	**9.4**
Disposals	(2.5)	(41.4)	—	**(43.9)**
Net transfers to held for sale[1]	—	1.3	—	**1.3**
Disposal of businesses (note 5)	—	(1.2)	(0.5)	**(1.7)**
Reclassification	—	2.4	(2.4)	**—**
Exchange movements	(1.5)	(16.9)	(0.2)	**(18.6)**
At 31 December 2021	**69.0**	**910.9**	**5.5**	**985.4**
Accumulated depreciation and impairment				
At 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[1]	(0.5)	(15.4)	—	**(15.9)**
Disposal of businesses	(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 and 1 January 2021	21.4	568.1	—	**589.5**
Charge for the year	1.7	62.4	—	**64.1**
Disposals	(0.7)	(35.2)	—	**(35.9)**
Net transfers to held for sale[1]	—	0.9	—	**0.9**
Disposal of businesses (note 5)	—	(0.3)	—	**(0.3)**
Impairments	—	3.4	—	**3.4**
Exchange movements	(0.5)	(11.3)	—	**(11.8)**
At 31 December 2021	**21.9**	**588.0**	**—**	**609.9**
Carrying amount				
At 1 January 2020	49.8	325.3	9.6	**384.7**
At 31 December 2020 and 1 January 2021	47.5	310.6	7.3	**365.4**
At 31 December 2021	**47.1**	**322.9**	**5.5**	**375.5**

1 The carrying amount of assets held for sale at the balance sheet date are detailed in note 21.

The Group had contractual commitments for the acquisition of property, plant and equipment of £7.2m (2020: £7.5m) at the balance sheet date. These amounts were not included in the balance sheet at the year end.

Impairments in the year include the write-down of surplus equipment to their value-in-use in the Middle East and Africa and KGS, the in-house equipment manufacturer, where it is not being relocated to other more active parts of the Group. The carrying amount of these assets was £1.9m, compared to a value-in-use of £0.3m, which resulted in a non-underlying impairment charge of £1.6m. Details of restructuring are set out in note 8. Also included are impairments in the year relating to assets that are inaccessible due to a contract suspension. The carrying amount of these assets was £1.8m, compared to a value-in-use sell of £nil, which resulted in an underlying impairment charge of £1.8m.

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 three and 15 years, while plant, machinery and vehicles generally have lease terms between two 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 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 and 1 January 2021	42.2	27.3	**69.5**
Additions	11.3	12.1	**23.4**
Acquired with businesses (note 5)	0.4	1.0	**1.4**
Depreciation expense	(12.6)	(13.9)	**(26.5)**
Impairment expense	—	(4.4)	**(4.4)**
Contract modifications	1.7	3.1	**4.8**
Exchange movements	(0.1)	(0.2)	**(0.3)**
At 31 December 2021	42.9	25.0	**67.9**

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.

Impairments in the year relate to assets that are inaccessible due to a contract suspension. The carrying amount of these assets was £4.4m, compared to a value-in-use of £nil, which resulted in an underlying impairment charge of £4.4m.

16 Investments in joint ventures

	£m
At 1 January 2021	**4.4**
Share of underlying post-tax results	**0.4**
Share of non-underlying post-tax results (note 8)	**(0.6)**
Exchange movements	**(0.2)**
At 31 December 2021	**4.0**

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

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.

In 2021, KFS Finland Oy earned total revenue of £36.8m (2020: £34.6m) and a statutory loss after tax for the year of £0.4m (2020: statutory profit after tax of £1.6m)

Aggregate amounts relating to joint ventures:

	2021			2020
	Underlying	Non-underlying items (note 8)	Statutory	Statutory
	£m	£m	£m	£m
Revenue	**18.4**	**—**	**18.4**	17.3
Operating costs[1]	**(17.9)**	**(0.6)**	**(18.5)**	(16.4)
Operating profit/(loss)	**0.5**	**(0.6)**	**(0.1)**	0.9
Finance costs	**(0.1)**	**—**	**(0.1)**	—
Profit/(loss) before taxation	**0.4**	**(0.6)**	**(0.2)**	0.9
Taxation	**—**	**—**	**—**	(0.1)
Share of post-tax results	**0.4**	**(0.6)**	**(0.2)**	0.8

1 Included within operating costs is depreciation on owned assets of £0.8m (2020: £0.6m).

	KFS Finland Oy (100% of results)		Group portion of the joint venture	
	2021	2020	2021	2020
	£m	£m	£m	£m
Non-current assets	**20.4**	10.0	**10.2**	5.0
Cash and cash equivalents	**1.2**	0.8	**0.6**	0.4
Other current assets	**7.8**	4.4	**3.9**	2.2
Total assets	**29.4**	15.2	**14.7**	7.6
Other current liabilities	**(8.4)**	(3.6)	**(4.2)**	(1.8)
Non-current loans and borrowings	**(11.2)**	(2.8)	**(5.6)**	(1.4)
Other non-current liabilities	**(1.8)**	—	**(0.9)**	—
Total liabilities	**(21.4)**	(6.4)	**(10.7)**	(3.2)
Share of net assets	**8.0**	8.8	**4.0**	4.4

On 8 September 2021, KFS Finland Oy acquired NordPile, a driven and piling contractor, for £7.3m (EUR8.5m). The fair value of the Group's share of intangibles acquired was £2.1m (EUR2.4m), representing the fair value of customer contracts at the date of acquisition and customer relationships. Amortisation of these assets is recognised as a non-underlying item.

17 Other non-current assets

	2021	2020[1]
	£m	£m
Fair value of derivative financial instruments	**2.6**	5.4
Non-qualifying deferred compensation plan assets	**20.6**	18.3
Other assets	**26.5**	12.4
Insurance receivables	**38.8**	24.2
	88.5	60.3

1 The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers and customer retentions receivable in more than one year to other non-current assets, as outlined in note 2 to the financial statements.

A non-qualifying deferred compensation plan (NQ) is available to US employees, whereby an element of eligible employee bonuses and salary is 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 2021, non-current assets in relation to the investments held in the trust were £20.6m (2020: £18.3m). The fair value movement on these assets was £1.1m (2020: £2.2m). During the period proceeds from the sale of NQ-related investments were £nil (2020: £nil). At 31 December 2021, non-current liabilities in relation to the participant investments were £15.8m (2020: £14.7m). These are accounted for as financial liabilities at fair value through profit or loss. The fair value movement on these liabilities was £2.1m (2020: £2.7m). During the year £1.4m (2020: £1.2m) of compensation was deferred.

Other assets include customer retentions receivable of £24.4m (2020: £10.2m). For further information refer to note 4. Note 2 highlights the restatement required in the presentation of customer retentions receivable.

18 Inventories

	2021 £m	2020 £m
Raw materials and consumables	**40.6**	41.3
Work in progress	**1.8**	0.3
Finished goods	**29.7**	18.5
	72.1	60.1

During 2021, £2.4m (2020: £3.8m) of inventory write-downs were recognised as an expense in the consolidated income statement.

19 Trade and other receivables

	2021 £m	2020[1] £m
Trade receivables	**448.8**	383.2
Contract assets	**107.6**	71.3
Other receivables	**15.9**	21.2
Fair value of derivative financial instruments	**—**	0.8
Prepayments	**19.6**	17.2
Insurance receivables	**0.1**	8.2
	592.0	501.9

1 The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers and customer retentions receivable in more than one year to other non-current assets, as outlined in note 2 to the financial statements.

Trade receivables and contract assets included in the balance sheet are shown net of expected credit loss provisions as detailed in note 2.

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

	2021 £m	2020 £m
At 1 January	**42.9**	38.1
Used during the year	**(3.1)**	(6.3)
Additional provisions	**24.6**	23.6
Unused amounts reversed	**(11.9)**	(12.1)
Acquisition with businesses	**2.4**	—
Disposal of businesses	**—**	(0.7)
Exchange movements	**(1.2)**	0.3
At 31 December	**53.7**	42.9

Set out below is information about the credit risk exposure on the Group's trade receivables, detailing past due but not impaired, based on agreed terms and conditions with the customer:

	2021 £m	2020 £m
Overdue by less than 30 days	**125.2**	65.9
Overdue by between 31 and 90 days	**59.6**	31.0
Overdue by more than 90 days	**20.2**	25.9
	205.0	122.8

20 Cash and cash equivalents

	2021 £m	2020 £m
Bank balances	**77.9**	64.2
Short-term deposits	**4.8**	2.1
Cash and cash equivalents in the balance sheet	**82.7**	66.3
Bank overdrafts	**(0.9)**	(4.7)
Cash and cash equivalents in the cash flow statement	**81.8**	61.6

Cash and cash equivalents include £2.7m (2020: £3.1m) of the Group's share of cash and cash equivalents held by joint operations, and £1.7m (2020: £0.5m) of restricted cash which is subject to local country restrictions.

21 Assets held for sale

	2021 £m	2020 £m
Plant and machinery	**3.1**	7.9
Inventories	**0.3**	0.3
Trade receivables	**—**	0.5
	3.4	8.7

Assets held for sale mainly comprise plant and machinery in Waterway, as a result of the wind-down of the business, and equipment in the North America Division following a rationalisation exercise.

22 Trade and other payables

	2021 £m	2020 £m
Trade payables	**268.8**	169.3
Other taxes and social security payable	**25.2**	23.0
Other payables	**117.2**	97.3
Contract liabilities	**46.5**	43.9
Accruals	**48.0**	47.7
Fair value of derivative financial instruments	**—**	0.5
	505.7	381.7

Other payables include contingent and deferred consideration of £12.3m (2020: £0.8m).

23 Provisions

	Employee provisions £m	Restructuring provisions £m	Contract provisions £m	Insurance and legal provisions £m	Other provisions £m	Total £m
At 31 December 2020	9.3	5.6	35.3	39.5	3.7	**93.4**
Restatement[1]	—	—	—	32.4	—	**32.4**
As at 31 December 2020 (restated)	9.3	5.6	35.3	71.9	3.7	**125.8**
Charge for the year	4.7	5.2	22.8	12.3	0.8	**45.8**
Acquired with businesses (note 5)	—	—	0.5	—	0.9	**1.4**
Disposal of businesses (note 5)	(0.1)	—	—	—	—	**(0.1)**
Used during the year	(4.4)	(6.9)	(11.6)	(7.1)	(0.9)	**(30.9)**
Unused amounts reversed	(0.1)	(0.2)	(4.9)	(3.4)	(0.9)	**(9.5)**
Unwinding of discount and changes in the discount rate	0.4	—	—	(0.1)	—	**0.3**
Exchange movements	0.1	(0.2)	(0.2)	(0.8)	—	**(1.1)**
At 31 December 2021	9.9	3.5	41.9	72.8	3.6	**131.7**
Current	3.2	3.5	34.1	9.4	3.6	**53.8**
Non-current	6.7	—	7.8	63.4	—	**77.9**
At 31 December 2021	9.9	3.5	41.9	72.8	3.6	**131.7**

1 The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers, as outlined in note 2 to the financial statements.

Employee provisions

Employee provisions relate to various liabilities in respect of employee rights and benefits, including the workers' compensation scheme in North America and long service leave benefits in Australia.

At 31 December 2021, the provision in respect of workers' compensation was £6.5m (2020: £6.8m). A provision is recognised when the an employee informs the company of a workers' compensation claim. The provision is measured based on information provided by the workers' compensation insurer. The actual costs that may be incurred in respect of these claims are dependent on the assessment of an employee's claim and potential medical expenses, with timing of outflows variable depending on the claim.

At 31 December 2021, the provision in respect of long service leave was £1.7m (2020: £1.6m). A provision is recognised at the point an employee joins the company, with an adjustment made to factor the likelihood that the employee will remain in continuous service with the company to meet the threshold to receive the benefits. It is measured at the present value of expected future benefit for services provided by employees up to the reporting date. The actual costs that may be incurred are dependent on the length of service for employees and amended for any starters and leavers. The provision is utilised when the leave is taken by the employee or when unused leave is paid on termination of employment.

Employee provisions also includes an amount of £1.4m (2020: £0.9m) in respect of social security contributions on share options. This provision is utilised as the options are exercised by employees, which occurs when the awards vest.

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 in 2021 relate primarily to the relevant activities in the Europe and Asia-Pacific, Middle East and Africa Divisions. The provisions comprise mainly amounts for redundancy costs. Estimates may differ from the actual charges depending on the finalisation of redundancy amounts. These provisions are expected to be utilised within the next 12 months.

Contract provisions

Contract provisions include onerous 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 estimated unavoidable costs of meeting the obligations of the contract, where these exceed the economic benefits expected to be received. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The majority of this balance is expected to be utilised in the next 12 months, given the general short-term nature of contracts. The non-current element of the provision relates to longer-term contracts and customer claims and disputes.

Insurance and legal provisions

Insurance and legal provisions comprises the liability for legal claims against the Group, including those 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.

Following the identification of an error (refer to note 2 for further details) there was a change in accounting policy for the presentation of provisions for legal claims and related insurance receivables. Provisions for insurance and legal claims are made based on the best estimate of the likely total settlement value of a claim against the Group. Management seek specialist input from legal advisers and the Group's insurance claims handler to estimate the most likely legal outcome. The outcome of legal negotiations is inherently uncertain; as a result, there can be no guarantee that the assumptions used to estimate the provision will result in an accurate prediction of the actual costs that may be incurred.

A provision is recognised when it is judged likely that a legal claim will result in a payment to the claimant 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. A separate insurance receivable is recognised to the extent that confirmed third-party insurance is expected to cover any element of an estimated claim value and is virtually certain to be recovered. The asset is recognised within other non-current assets (refer to note 17) and trade and other receivables (refer to note 19). Management considers that there are no instances of reimbursable assets which are probable in nature.

Other provisions

Other provisions are in respect of property dilapidation arising from lease obligations and other operational provisions. Where a lease includes a 'make-good' requirement, provision for the cost is recognised as the obligation is incurred, either at the commencement of the lease or as a consequence of using the asset, and the cost of the expected work required can be reliably estimated. These are expected to be utilised over the relevant lease term which ranges from 3 to 15 years across the Group.

24 Other non-current liabilities

	2021 **£m**	2020 £m
Non-qualifying compensation plan liabilities	**15.8**	14.8
Other liabilities	**5.4**	7.2
	21.2	22.0

Other liabilities include deferred consideration of £0.4m (2020: contingent consideration of £2.2m) and £4.7m (2020: £4.5m) in respect of US social security tax deferrals, refer to note 7 for further information.

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 and Australian dollars.

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 the 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 2021, the fair value of outstanding foreign exchange forward contracts was £nil (2020: £0.5m, included in current liabilities).

Interest rate risk

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

As at 31 December 2021, approximately 99% (2020: 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 US 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 diversity, both geographically and in terms of end markets. No individual customer represented more than 3% of revenue in 2021. 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 (including contract assets) 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 into account 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 the certainty of funding and a flexible, cost-effective financing structure, with all main borrowings being from committed facilities. The Group's policy ensures 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 $75m private placement repayable in December 2024 and a £375m syndicated revolving credit facility expiring in November 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 £76.0m (2020: £385.3m). In 2020, facilities available included £300m available under the Bank of England Covid Corporate Financing Facility, which expired on 23 March 2021.

Private placements

In October and December 2014, $50m and $75m respectively was 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. In October 2021 the $50m private placement was repaid, in line with the agreed terms. The US private placement notes 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 2021 was £58.1m (2020: £97.3m).

Hedging

The 2014 $50m and $75m fixed rate private placement liabilities were swapped into floating rates 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 is to protect against the Group's exposure to changes in the fair value of the US private placement debt and to protect related interest cash flows due to changes in US dollar interest rates.

The fair value of the 2014 swaps at 31 December 2021 was £2.6m (2020: £6.2m); of this amount £2.6m (2020: £5.4m) is included in other non-current assets. At 31 December 2020, £0.8m was included in trade and other receivables. The effective portion of the changes in the fair value of the 2014 swaps gave rise to a loss of £3.6m (2020: gain of £2.8m), which has been taken to the income statement along with the equal and opposite movement in fair value of the corresponding hedged items. In October 2021, the interest rate swap hedging the tranche of the private placement liability repaid in the year was closed out in line with the agreed terms.

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

Accounting classifications

	2021	2020
	£m	£m
Financial assets measured at fair value through profit or loss		
Non-qualifying deferred compensation plan	**20.6**	18.3
Interest rate swaps	**2.6**	6.2
Financial assets measured at amortised cost		
Trade receivables	**448.8**	383.2
Contract assets	**107.6**	71.3
Cash and cash equivalents	**82.7**	66.3
Financial liabilities at fair value through profit or loss		
Forward exchange contracts	**—**	(0.5)
Contingent and deferred consideration	**(12.7)**	(3.0)
Financial liabilities measured at amortised cost		
Trade payables	**(268.8)**	(169.3)
Contract liabilities	**(46.5)**	(43.9)
Loans and borrowings	**(200.6)**	(185.0)
Lease liabilities	**(75.4)**	(73.8)

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:

	2021						
	Effective interest rate	**Due within 1 year**	**Due within 1-2 years**	**Due within 2-5 years**	**Due after more than 5 years**	**Total**	**Carrying amount as shown in the balance sheet**
	%	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Bank loans and overdrafts	**1.0**	**1.5**	**0.4**	**139.3**	**0.1**	**141.3**	**141.8**
Bonds and other loans	**1.6**	**3.6**	**2.3**	**57.8**	**—**	**63.7**	**58.8**
Lease liabilities	**—**	**30.3**	**17.4**	**27.3**	**7.6**	**82.6**	**75.4**
Contract liabilities	**—**	**46.5**	**—**	**—**	**—**	**46.5**	**46.5**
Trade payables	**—**	**268.8**	**—**	**—**	**—**	**268.8**	**268.8**
Contingent consideration	**—**	**12.3**	**0.4**	**—**	**—**	**12.7**	**12.7**
		363.0	**20.5**	**224.4**	**7.7**	**615.6**	**604.0**

	2020						
	Effective interest rate	Due within 1 year	Due within 1-2 years	Due within 2-5 years	Due after more than 5 years	Total	Carrying amount as shown in the balance sheet
	%	£m	£m	£m	£m	£m	£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	—	—	—	169.3	169.3
Contingent consideration	—	0.8	2.2	—	—	3.0	3.0
		286.8	25.4	164.1	11.6	488.0	475.0

Loans and borrowings analysis

	2021	2020
	£m	£m
$75m private placement (due December 2024)	**58.1**	60.0
$50m private placement (repaid October 2021)	**—**	37.3
£375m syndicated revolving credit facility (expiring November 2025)	**138.5**	78.3
Bank overdrafts	**0.9**	4.7
Other bank borrowings	**2.4**	2.3
Other loans	**0.7**	2.4
Lease liabilities (note 26)	**75.4**	73.8
Total loans and borrowings	**276.0**	258.8

The Group has substantial borrowing facilities available to it. The undrawn committed facilities available at 31 December 2021 amounted to £235.5m (2020: £313.2m). 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 £56.4m at 31 December 2021 (2020: £359.4m). In 2020 this included £300m available under the Bank of England Covid Corporate Financing Facility (CCFC) which expired 23 March 2021. No drawings were made on the CCFC. Other uncommitted bank borrowing facilities are normally reaffirmed by the banks annually, although they can theoretically be withdrawn at any time. Facilities totalling £3.2m (2020: £4.0m) are secured against certain assets. Future obligations under finance leases on a former IAS 17 basis totalled £1.5m (2020: £2.2m), including interest of £0.1m (2020: £nil).

Changes in loans and borrowings were as follows:

	2020 £m	Cash flows £m	Other[1] £m	New leases £m	Acquisition of businesses £m	Foreign exchange movements £m	Fair value changes £m	**2021 £m**
Bank overdrafts	(4.7)	3.7	—	—	—	0.1	—	**(0.9)**
Bank loans	(80.6)	(59.0)	(1.2)	—	—	(0.1)	—	**(140.9)**
Other loans	(99.7)	37.2	0.6	—	—	(0.5)	3.6	**(58.8)**
Lease liabilities (note 26)	(73.8)	29.8	(7.1)	(23.4)	(1.4)	0.5	—	**(75.4)**
Total loans and borrowings	(258.8)	11.7	(7.7)	(23.4)	(1.4)	—	3.6	**(276.0)**
Derivative financial instruments	5.7	—	—	—	—	—	(3.1)	**2.6**

1 Other comprises disposals and contract modifications and interest accretion on lease liabilities.

Cash flow hedges

At 31 December 2021, the Group held no instruments to hedge exposures to changes in foreign currency rates. At 31 December 2020, the Group held the following instruments:

	2020							
	Maturity				Carrying amount			
	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Asset £m	Liability[1] £m	Change in fair value used for calculating hedge ineffectiveness £m	Nominal amount $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:

	2021							
	Maturity				**Carrying amount**			
	<1 year £m	**1-2 years £m**	**2-5 years £m**	**>5 years £m**	**Asset[1] £m**	**Liability £m**	**Change in fair value used for calculating hedge ineffectiveness £m**	**Nominal[2] amount $m**
Interest rate swaps	**—**	**—**	**2.6**	**—**	**2.6**	**—**	**—**	**9.4**

	2020							
	Maturity				Carrying amount			
	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Asset[1] £m	Liability £m	Change in fair value used for calculating hedge ineffectiveness £m	Nominal[2] amount $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%.

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

	2021			2020		
	Carrying[1] amount liability £m	**Change in fair value used for calculating hedge ineffectiveness £m**	**Hedge[2] ineffectiveness in profit or loss £m**	Carrying[1] amount liability £m	Change in fair value used for calculating hedge ineffectiveness £m	Hedge[2] ineffectiveness in profit or loss £m
$75m private placements (2020: $125m)	**(58.1)**	**—**	**—**	(97.3)	—	—
Fair value hedge adjustments	**3.6**	**—**	**—**	2.8	—	—

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 £315.3m (2020: £213.2m), 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 and deferred consideration and payables, receivables and construction assets.

Derivatives

The fair values 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 and deferred 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 2021.

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

	2021 £m	2020 £m
At 1 January	**3.0**	2.4
Acquisition of businesses (note 5)	**8.8**	—
Additional amounts provided (note 8)	**1.3**	0.8
Paid during the period	**(0.4)**	—
Released during the period	**(0.1)**	—
Exchange movements	**0.1**	(0.2)
At 31 December	**12.7**	3.0

During the year, the Group acquired RECON Services Inc. Contingent consideration is payable in respect of certain contract awards; the total fair value of the contingent consideration at 31 December 2021 is £8.0m. This amount has been agreed with the vendor (refer to note 34). The Group also acquired Voges Drilling. Deferred consideration of £0.8m is to be paid over a three-year period. Refer to note 5 for further details.

Additional contingent consideration payable of £1.3m relates to the acquisition of the Geo Construction Group (Bencor) in 2015, following the finalisation of items referenced in the sale and purchase agreement. This now reflects the maximum value payable under the sale and purchase agreement.

Contingent consideration was paid during the period of £0.4m in respect of the Geo Instruments acquisition in 2017, with an additional £0.1m released in the period. In the prior period, an additional £0.8m was provided.

At 31 December 2021, contingent consideration of £11.9m (2020: £2.4m) is payable between one and two years (2020: £0.8m for Geo Instruments payable in one year).

At 31 December 2021, £0.4m deferred consideration in respect of Voges Drilling, is payable in one year and £0.4m payable in one to two years.

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, receivables and contract assets with an expected maturity 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:

	2021					
	GBP	**USD**	**EUR**	**CAD**	**Other[1]**	**Total**
Weighted average fixed debt interest rate (%)	**—**	**—**	**1.5**	**—**	**6.1**	**—**
Weighted average fixed debt period (years)	**—**	**—**	**4.1**	**—**	**0.3**	**—**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed rate financial liabilities	**—**	**—**	**(1.7)**	**—**	**(1.3)**	**(3.0)**
Floating rate financial liabilities	**(63.3)**	**(111.8)**	**(0.1)**	**—**	**(22.4)**	**(197.6)**
Lease liabilities	**(3.5)**	**(45.1)**	**(12.7)**	**(3.2)**	**(10.9)**	**(75.4)**
Financial assets	**4.3**	**14.7**	**6.9**	**8.4**	**48.4**	**82.7**
Net debt	**(62.5)**	**(142.2)**	**(7.6)**	**5.2**	**13.8**	**(193.3)**

	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)

1 Included within other floating rate financial liabilities are AUD revolver loans of £21.5m (2020: £5.8m). Included within other financial assets are AUD cash balances of £4.1m (2020: £1.5m), ZAR cash balances of £5.6m (2020: £4.4m) and SGD cash balances of £4.3m (2020: £2.3m).

Sensitivity analysis

At 31 December 2021, 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 £1.2m (2020: £1.1m).

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 £5.0m for the year ended 31 December 2021 (2020: £12.0m). The estimated impact of a 10 percentage point decrease in the value of sterling is an increase of £6.1m (2020: £14.6m) 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:

	2021	2020
	£m	£m
At 1 January	**73.8**	78.4
Additions	**24.8**	22.5
Contract modifications	**4.0**	0.3
Interest expense	**3.1**	3.8
Payments	**(29.8)**	(30.2)
Exchange movements	**(0.5)**	(1.0)
At 31 December	**75.4**	73.8
Current	**27.5**	24.8
Non-current	**47.9**	49.0

27 Share capital and reserves

	2021 £m	2020 £m
Allotted, called up and fully paid equity share capital:		
73,099,735 ordinary shares of 10p each (2020: 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 of £7.6m 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 of £56.9m 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 2021, the total number of shares held in treasury was 777,917 (2020: 889,733).

During the year to 31 December 2021, 417,240 ordinary shares were purchased by the Keller Group Employee Benefit Trust (2020: nil), to be used to satisfy future obligations of the company under the Keller Group plc Long Term Incentive Plan. The cost of the market purchases was £3.7m (2020: £nil).

There is a dividend waiver in place for both shares held in treasury and by the Keller Group Employee Benefit Trust.

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:

	2021 £m	2020 £m
Short-term employee benefits	**8.2**	8.3
Post-employment benefits	**0.3**	0.4
Termination payments	**0.4**	0.4
	8.9	9.1

Other related party transactions

As at the year end there was a net balance of £0.1m owed by (2020: £0.1m owed by) 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 £7.2m (2020: £7.5m) and relates to property, plant and equipment purchases.

30 Guarantees, contingent liabilities and contingent assets

Claims against the Group arise in the normal course of business, some of which lead to litigation or arbitration procedures. Such claims are predominantly covered by the Group's insurance arrangements. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

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 2021, the Group had outstanding standby letters of credit and surety bonds for the Group's captive insurance arrangements totalling £26.5m (2020: £25.4m). The Group enters into performance and advance payment bonds and other undertakings in the ordinary course of business. At 31 December 2021, the Group has £138.3m outstanding related to performance and advanced payment bonds (2020: £154.0m). These are treated as a contingent liability until such time it becomes probable that payment will be required under the individual terms of each arrangement.

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.

At 31 December 2021, the Group had no contingent assets (2020: £nil).

31 Share-based payments

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

Outstanding awards are as follows:

	Number
Outstanding at 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 and 1 January 2021	**2,063,410**
Granted during 2021	**805,367**
Lapsed during 2021	**(782,525)**
Exercised during 2021	**(111,816)**
Outstanding at 31 December 2021	**1,974,436**
Exercisable at 1 January 2020	—
Exercisable at 31 December 2020 and 1 January 2021	—
Exercisable at 31 December 2021	**—**

The average share price during the year was 865.1p (2020: 651.0p).

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:

	2021	2020
Share price at grant	**856.0p**	720.0p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**47.3%**	39.1%
Expected life	**3 years**	3 years
Risk-free rate	**0.14%**	0.11%
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 £3.9m (2020: £2.4m) related to equity-settled, share-based payment transactions.

The weighted average fair value of options granted in the year was 827.6p (2020: 695.5p).

The awards, which are taken as shares, are intended to be satisfied from shares held under the Keller Group Employee Benefit Trust (the 'Trust') or from treasury shares held. The shares held by the Trust are accounted for as a deduction from equity in retained earnings. At 31 December 2021, 417,240 ordinary shares were held by the Trust with a value of £3.7m. These shares were purchased during the year. At 31 December 2020, no shares were held in the Trust.

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. 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. These estimates remain appropriate for 2021. 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 2021 (2020: £nil). The total UK defined contribution pension charge for the year was £1.4m (2020: £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 or 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.

The Group operates a defined contribution scheme for employees in North America, where the Group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total North America pension charge for the year was £6.4m (2020: £5.9m).

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 10.0% (2020: 9.5%). The total Australian pension charge for the year was £3.8m (2020: £3.1m).

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

	The Keller Group Pension Scheme (UK) 2021 £m	The Keller Group Pension Scheme (UK) 2020 £m	**German,[1] Austrian and other schemes 2021 £m**	German,[1] Austrian and other schemes 2020 £m
Present value of the scheme liabilities	**(58.3)**	(65.0)	**(18.9)**	(21.9)
Fair value of assets	**63.7**	58.0	**—**	—
Surplus/(deficit) in the scheme	**5.4**	(7.0)	**(18.9)**	(21.9)
Irrecoverable surplus	**(12.2)**	(2.2)	**—**	—
Net defined benefit liability	**(6.8)**	(9.2)	**(18.9)**	(21.9)

1 Included in this balance is £3.0m (2020: £2.9m) in relation to the end of service schemes in the Middle East.

For the Keller Group Pension Scheme, based on the net deficit of the Scheme as at 31 December 2021 and the committed payments under the Schedule of Contributions agreed on 17 November 2020, there is a notional surplus of £12.2m (2020: £2.2m). 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 minimum funding requirement is calculated using the agreed contributions of £2.7m a year with effect from 1 January 2021, increasing by 3.6% per annum on 1 January going forward to 5 August 2024. The contributions will be reviewed following the next actuarial review to be prepared as at 5 April 2023.

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

	The Keller Group Pension Scheme (UK) 2021 %	The Keller Group Pension Scheme (UK) 2020 %	**German and Austrian schemes 2021 %**	German and Austrian schemes 2020 %
Discount rate	**2.0**	1.2	**0.8**	0.3
Interest on assets	**2.0**	1.2	**—**	—
Rate of increase in pensions in payment	**3.5**	3.4	**2.0**	2.0
Rate of increase in pensions in deferment	**2.9**	2.7	**3.2**	1.6
Rate of inflation	**3.5**	3.3	**3.2**	1.6

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) 2021	The Keller Group Pension Scheme (UK) 2020	**German and Austrian schemes 2021**	German and Austrian schemes 2020
Male currently aged 65	**21.0**	20.9	**19.5**	19.4
Female currently aged 65	**23.3**	23.3	**22.8**	22.8

The assets of the schemes were as follows:

	The Keller Group Pension Scheme (UK) 2021 £m	The Keller Group Pension Scheme (UK) 2020 £m	**German, Austrian and other schemes 2021 £m**	German, Austrian and other schemes 2020 £m
Equities	**16.8**	17.5	**—**	—
Target return funds[1]	**8.1**	14.5	**—**	—
Gilts	**—**	10.1	**—**	—
Bonds	**19.7**	10.0	**—**	—
Liability driven investing (LDI) portfolios[2]	**15.9**	—	**—**	—
Cash	**3.2**	0.1	**—**	—
	63.7	52.2	**—**	—

1 A diversified growth fund split between mainly UK listed equities, bonds and alternative investments which are capped at 20% of the total fund.
2 A portfolio of gilt and swap contracts, backed by investment-grade credit instruments, that is designed to hedge the majority of the interest rate and inflation risks associated with the Schemes' obligations.

	The Keller Group Pension Scheme (UK) 2021 £m	The Keller Group Pension Scheme (UK) 2020 £m	**German,[1] Austrian and other schemes 2021 £m**	German,[1] Austrian and other schemes 2020 £m
Changes in scheme liabilities				
Opening balance	**(65.0)**	(60.4)	**(21.9)**	(20.7)
Current service cost	**—**	—	**(0.6)**	(0.7)
Interest cost	**(0.8)**	(1.2)	**(0.1)**	(0.1)
Benefits paid	**2.1**	3.7	**1.5**	1.2
Exchange movements	**—**	—	**1.0**	(0.8)
Experience loss on defined benefit obligation	**—**	(0.4)	**—**	—
Changes to demographic assumptions	**(0.6)**	2.7	**—**	—
Changes to financial assumptions	**6.0**	(9.4)	**1.2**	(0.8)
Closing balance	**(58.3)**	(65.0)	**(18.9)**	(21.9)
Changes in scheme assets				
Opening balance	**58.0**	52.2	**—**	—
Interest on assets	**0.7**	1.0	**—**	—
Administration costs	**(0.2)**	(0.2)	**—**	—
Employer contributions	**2.7**	2.6	**—**	—
Benefits paid	**(2.1)**	(3.7)	**—**	—
Return on plan assets less interest	**4.6**	6.1	**—**	—
Closing balance	**63.7**	58.0	**—**	—
Actual return on scheme assets	**5.3**	7.1	**—**	—
Statement of comprehensive income				
Return on plan assets less interest	**4.6**	6.1	**—**	—
Experience loss on defined benefit obligation	**—**	(0.4)	**—**	—
Changes to demographic assumptions	**(0.6)**	2.7	**—**	—
Changes to financial assumptions	**6.0**	(9.4)	**1.2**	(0.8)
Change in irrecoverable surplus	**(10.0)**	(0.4)	**—**	—
Remeasurements of defined benefit plans	**—**	(1.4)	**1.2**	(0.8)
Cumulative remeasurements of defined benefit plans	**(25.6)**	(25.6)	**(9.2)**	(10.4)
Expense recognised in the income statement				
Current service cost	**—**	—	**0.6**	0.7
Administration costs	**0.2**	0.2	**—**	—
Operating costs	**0.2**	0.2	**0.6**	0.7
Net pension interest cost	**0.1**	0.2	**0.1**	0.1
Expense recognised in the income statement	**0.3**	0.4	**0.7**	0.8
Movements in the balance sheet liability				
Net liability at start of year	**9.2**	10.0	**21.9**	20.7
Expense recognised in the income statement	**0.3**	0.4	**0.7**	0.8
Employer contributions	**(2.7)**	(2.6)	**—**	—
Benefits paid	**—**	—	**(1.5)**	(1.2)
Exchange movements	**—**	—	**(1.0)**	0.8
Remeasurements of defined benefit plans	**—**	1.4	**(1.2)**	0.8
Net liability at end of year	**6.8**	9.2	**18.9**	21.9

1 Other comprises end of service schemes in the Middle East of £3.0m (2020: £2.9m).

A reduction in the discount rate of 0.1% would increase the deficit in the schemes by £1.1m, 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. A decrease in the mortality rate by one year would decrease the deficit in the schemes by £1.4m. Note that these sensitivities do not include end of service schemes in the Middle East as these are not material to the Group.

The weighted average duration of the defined benefit obligation is approximately 17 years for the UK scheme and 11 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, including the end of service schemes in the Middle East, are as follows:

	2021	2020	2019	2018	2017
	£m	£m	£m	£m	£m
Present value of defined benefit obligation	**(77.2)**	(86.9)	(81.1)	(71.7)	(75.3)
Fair value of scheme assets	**63.7**	58.0	52.2	45.2	46.1
Deficit in the schemes	**(13.5)**	(28.9)	(28.9)	(26.5)	(29.2)
Irrecoverable surplus	**(12.2)**	(2.2)	(1.8)	(1.4)	—
Net defined benefit liability	**(25.7)**	(31.1)	(30.7)	(27.9)	(29.2)
Experience adjustments on scheme liabilities	**6.6**	(7.9)	(8.2)	3.7	(1.8)
Experience adjustments on scheme assets	**4.6**	6.1	5.4	(1.5)	3.2

33 Non-controlling interests

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

Name	Country of incorporation	**2021**	2020
Keller Fondations Speciales SPA	Algeria	**49%**	49%
Keller Turki Company Limited	Saudi Arabia	**35%**	35%

Loss attributable to non-controlling interests:

	2021	2020
	£m	£m
Keller Fondations Speciales SPA	**(0.5)**	(0.6)
Keller Turki Company Limited	**(0.3)**	(1.0)
Other interests	**(0.1)**	0.2
	(0.9)	(1.4)

Share of net assets of non-controlling interests:

	2021	2020
	£m	£m
Keller Fondations Speciales SPA	**2.9**	3.5
Keller Turki Company Limited	**(0.3)**	0.1
Other interests	**0.2**	0.1
	2.8	3.7

Aggregate amounts relating to material non-controlling interests:

	2021	**2021**	2020	2020
	£m	**£m**	£m	£m
	Keller Fondations Speciales SPA	**Keller Turki Company Limited**	Keller Fondations Speciales SPA	Keller Turki Company Limited
Revenue	**0.9**	**4.2**	0.8	1.5
Operating costs	**(1.2)**	**(4.5)**	(1.4)	(2.5)
Operating loss	**(0.3)**	**(0.3)**	(0.6)	(1.0)
Finance costs	**—**	**—**	—	—
Loss before taxation	**(0.3)**	**(0.3)**	(0.6)	(1.0)
Taxation	**(0.2)**	**—**	—	—
Loss attributable to non-controlling interests	**(0.5)**	**(0.3)**	(0.6)	(1.0)

	2021	2021	2020	2020
	£m	£m	£m	£m
	Keller Fondations Speciales SPA	**Keller Turki Company Limited**	Keller Fondations Speciales SPA	Keller Turki Company Limited
Non-current assets	**0.9**	**0.7**	1.2	0.9
Current assets	**2.8**	**2.4**	4.0	1.0
Current liabilities	**(0.8)**	**(2.8)**	(1.7)	(1.1)
Non-current liabilities	**—**	**(0.6)**	—	(0.7)
Share of net assets/(liabilities)	**2.9**	**(0.3)**	3.5	0.1

34 Post balance sheet events

On 15 February 2022, an agreement was reached with the vendor of RECON Services Inc. to finalise the amount of contingent consideration payable in respect of the acquisition made in July 2021. A final settlement amount of £8.7m (US$11.7m) was agreed in respect of the remaining contingent consideration payable and other liabilities arising from the sale and purchase agreement. This represents a non-adjusting post balance sheet event under IFRS. The change in fair value of the contingent consideration between the 31 December 2021 balance sheet date and the agreement reached on 15 February will be reflected in the income statement for the period ending 31 December 2022.

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 2020 results of overseas operations into sterling at the 2021 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 2020 underlying result and the 2020 constant currency result is shown below and compared to the underlying 2021 performance:

Revenue by segment

	2021	2020				
	Statutory	Statutory	Impact of exchange movements	Constant currency	**Statutory change**	**Constant currency change**
	£m	£m	£m	£m	**%**	**%**
North America	**1,323.1**	1,227.5	(80.7)	1,146.8	**+8%**	**+15%**
Europe	**549.2**	538.5	(16.3)	522.2	**+2%**	**+5%**
Asia-Pacific, Middle East and Africa	**352.1**	296.5	(4.0)	292.5	**+19%**	**+20%**
Group	**2,224.4**	2,062.5	(101.0)	1,961.5	**+8%**	**+13%**

Underlying operating profit by segment

	2021	2020				
	Underlying	Underlying	Impact of exchange movements	Constant currency	**Underlying change**	**Constant currency change**
	£m	£m	£m	£m	**%**	**%**
North America	**73.0**	83.2	(5.9)	77.3	**-12%**	**-6%**
Europe	**24.3**	18.4	(0.8)	17.6	**+32%**	**+38%**
Asia-Pacific, Middle East and Africa	**3.4**	15.5	(0.7)	14.8	**-78%**	**-77%**
Central items	**(7.9)**	(7.0)	—	(7.0)	**n/a**	**n/a**
Group	**92.8**	110.1	(7.4)	102.7	**-16%**	**-10%**

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)

	2021 £m	2020 £m
Underlying operating profit	**92.8**	110.1
Depreciation and impairment of owned property, plant and equipment	**65.9**	66.3
Depreciation and impairment of right-of-use assets	**30.9**	28.0
Amortisation of intangible assets	**0.6**	0.6
Underlying EBITDA	**190.2**	205.0
Non-underlying items in operating costs	**(9.6)**	(29.6)
Non-underlying items in other operating income	**0.7**	0.7
EBITDA	**181.3**	176.1

EBITDA (IAS 17 covenant basis)

	2021 £m	2020 £m
Underlying operating profit	**92.8**	110.1
Depreciation and impairment of owned property, plant and equipment	**65.9**	66.3
Depreciation and impairment of right-of-use assets	**30.9**	28.0
Legacy IAS 17 operating lease charges	**(32.7)**	(30.0)
Amortisation of intangible assets	**0.6**	0.6
Underlying EBITDA	**157.5**	175.0
Non-underlying items in operating costs	**(9.6)**	(29.6)
Non-underlying items in other operating income	**0.7**	0.7
EBITDA	**148.6**	146.1

Net finance costs

	2021 £m	2020 £m
Finance income	**(0.4)**	(1.1)
Underlying finance costs	**9.3**	14.3
Net finance costs (statutory)	**8.9**	13.2
Finance charge on lease liabilities[1]	**(3.0)**	(3.6)
Lender covenant adjustments	**(0.7)**	(1.5)
Net finance costs (IAS 17 covenant basis)	**5.2**	8.1

1 Excluding legacy IAS 17 finance leases.

Net capital expenditure

	2021 £m	2020 £m
Acquisition of property, plant and equipment	**84.0**	72.5
Acquisition of other intangible assets	**0.4**	0.5
Proceeds from sale of property, plant and equipment	**(9.8)**	(7.4)
Net capital expenditure[1]	**74.6**	65.6

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

Net debt

	2021 £m	2020 £m
Current loans and borrowings	**29.8**	67.0
Non-current loans and borrowings	**246.2**	191.8
Cash and cash equivalents	**(82.7)**	(66.3)
Net debt (statutory)	**193.3**	192.5
Lease liabilities[1]	**(73.9)**	(71.6)
Net debt (IAS 17 covenant basis)	**119.4**	120.9

1 Excluding legacy IAS 17 finance leases.

Leverage ratio

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

Statutory

	2021 £m	2020 £m
Net debt	**193.3**	192.5
Underlying EBITDA	**190.2**	205.0
Leverage ratio (x)	**1.0**	0.9

IAS 17 covenant basis

	2021 £m	2020 £m
Net debt	**119.4**	120.9
Underlying EBITDA	**157.5**	175.0
Leverage ratio (x)	**0.8**	0.7

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.

Financial record

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019[1] £m	2020[1] £m	**2021 £m**
Consolidated income statement										
Continuing operations										
Revenue	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	**2,224.4**
Underlying EBITDA	91.9	124.2	141.9	155.5	158.6	177.2	167.5	198.4	205.0	**190.2**
Underlying operating profit	48.3	77.8	92.0	103.4	95.3	108.7	96.6	103.8	110.1	**92.8**
Underlying net finance costs	(4.8)	(3.7)	(6.9)	(7.7)	(10.2)	(10.0)	(16.1)	(22.5)	(13.2)	**(8.9)**
Underlying profit before taxation	43.5	74.1	85.1	95.7	85.1	98.7	80.5	81.3	96.9	**83.9**
Underlying taxation	(13.5)	(23.8)	(29.7)	(33.0)	(29.8)	(24.7)	(22.5)	(22.4)	(28.3)	**(20.1)**
Underlying profit for the year	30.0	50.3	55.4	62.7	55.3	74.0	58.0	58.9	68.6	**63.8**
Non-underlying items[2]	—	(20.2)	(56.6)	(36.4)	(7.3)	13.5	(71.8)	(37.2)	(27.5)	**(1.7)**
Profit/(loss) for the year	30.0	30.1	(1.2)	26.3	48.0	87.5	(13.8)	21.7	41.1	**62.1**
Underlying EBITDA (IAS 17 covenant basis)	91.9	124.2	141.9	155.5	158.6	177.2	167.5	170.8	175.0	**157.5**
Consolidated balance sheet										
Working capital	97.6	124.1	104.1	97.1	152.5	181.3	225.4	200.9	180.3	**158.4**
Property, plant and equipment	248.5	281.9	295.6	331.8	405.6	399.2	422.0	460.6	434.9	**443.4**
Intangible and other non-current assets	112.1	202.8	203.4	183.0	218.2	198.3	179.5	192.3	183.5	**234.0**
Net debt (statutory)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	(289.8)	(192.5)	**(193.3)**
Other net liabilities	(71.3)	(92.5)	(154.6)	(94.9)	(41.1)	(77.1)	(114.2)	(166.5)	(196.2)	**(199.8)**
Net assets	335.7	372.6	346.3	334.0	429.6	472.2	426.5	397.5	410.0	**442.7**
Net debt (IAS 17 covenant basis)	(51.2)	(143.7)	(102.2)	(183.0)	(305.6)	(229.5)	(286.2)	(213.1)	(120.9)	**(119.4)**
Underlying key performance indicators										
Diluted earnings per share from continuing operations (p)	45.0	71.9	74.2	85.4	74.8	101.8	79.1	81.3	96.3	**88.4**
Dividend per share (p)	22.8	24.0	25.2	27.1	28.5	34.2	35.9	35.9	35.9	**35.9**
Operating margin	3.7%	5.4%	5.8%	6.6%	5.4%	5.2%	4.3%	4.5%	5.3%	**4.2%**
Return on capital employed[3]	11.6%	16.7%	18.3%	20.5%	15.3%	15.1%	13.2%	14.4%	16.4%	**14.4%**
Net debt: EBITDA (statutory)	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	1.5x	0.9x	**1.0x**
Net debt: EBITDA (IAS 17 covenant basis)	0.6x	1.2x	0.7x	1.2x	1.9x	1.3x	1.7x	1.2x	0.7x	**0.8x**

1 Working capital, intangible and other non-current assets and other net liabilities presented here do not correspond to the published 2020 consolidated financial statements. The comparative balance sheet has been restated to present gross insurance provisions with a separate reimbursement asset recognised for amounts recoverable from insurance providers and customer retentions receivable in more than one year to other non-current assets, as outlined in note 2 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.