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RE-SCAN

Keller, the global construction services Group, is renowned for providing innovative and cost effective solutions to ground engineering problems and refurbishment projects. Keller has unrivalled coverage in Europe, North America and Australia where its services are used in infrastructure, building, civil engineering and structural renovation contracts.

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Turnover (£m)
Up 18%

1995	225.0
1996	239.0
1997	244.6
1998	266.9
1999	**314.9**

Profit before tax (£m)
Up 14%

1995	11.2
1996	12.5
1997	13.8
1998	16.7
1999	**19.0**

Earnings per share (p)
Up 16%

1995	11.7
1996	13.9
1997	15.9
1998	18.6
1999	**21.5**

Dividends per share (p)
Up 10%

1995	5.30
1996	5.85
1997	6.45
1998	7.10
1999	**7.80**

CHAIRMAN'S STATEMENT

I am delighted to report a very strong performance by Keller Group with another double digit increase in profits and earnings. Significantly, these results come primarily from organic growth with the Group ending the year in a very healthy financial position and well placed to pursue opportunities for expansion.

In 1999 Group revenue increased 18% to £314.9m, Group profit before tax rose 14% to £19.0m while earnings per share were 21.5p, an improvement of 16% on the previous year. Maintaining a progressive dividend policy, the Board are recommending a final dividend of 5.2p per share. This brings the total dividend for the year to 7.8p, an increase of 10% over the previous year. The final dividend will be paid on 31 May 2000 to shareholders on the register at the close of business on 8 May 2000.

Highlights of the year were a much improved performance from our operations in Continental Europe, another excellent result from North America and strong progress in developing our specialist concrete repair and refurbishment business in the UK.

In Continental Europe, improved results in the core German and Austrian operations were complemented by encouraging progress in other European markets, most notably France and Poland. Group operations in North America produced another exceptional result with all parts of the business performing well despite some strengthening of competition on major projects. In the UK, an excellent performance from our Makers specialist concrete repair and refurbishment business was balanced by a continuing weakness in ground engineering, a situation aggravated by a current lack of major infrastructure work in the UK.

In the interim statement I announced the appointment of Dr Kevin Bond and Keith Payne as non-executive directors of the Group and they are already making a valuable contribution to the Board. At the beginning of October we announced the resignation of Rob Painting as finance director and we wish him every success in pursuing new interests. Justin Atkinson was appointed group finance director on 11 October 1999. Justin joined the Group in 1990 shortly after our management buy out and had been group financial controller for the last four years.

During the latter part of the year we invited our senior managers from around the world to join with the Board in reviewing the Group's strategy thus giving them the opportunity to meet our new non-executive directors.

The Management Training Programme introduced in 1997 is now well established and the first group of 18 senior managers have successfully completed this executive programme. We are committed to offering our staff the opportunity to broaden their skills and are indebted to them for their hard work and commitment to the Group.

Looking ahead, the Group's proven combination of technical strength and market spread give grounds for continued optimism. Our strategy remains to grow our core ground engineering business by selective acquisition and penetration of new markets, while increasing the range and scale of specialist services that the Group can offer through our well established international network. Specialist concrete repair and related services show considerable promise and I expect to see continued growth in this segment of our business both in the UK and elsewhere.

Earlier, I referred to the Group's good financial position and this, combined with an increasing number of international opportunities, gives me every confidence for the continued progress of the Group.

Dr J M West Chairman
8 March 2000

OPERATING REVIEW

Keller Group results for 1999 show strong growth in sales, operating profit and earnings, despite the fact that no significant acquisitions were completed in the period. These results underline the effectiveness of the Group's strategy and the inherent strength provided by taking leading positions in the major national markets of Europe and the USA.

The Group's well balanced geographical profile again proved successful in reducing the effect of the cyclical nature of the markets in which it operates. In the USA, our national coverage allowed Keller to take full advantage of a strong market. In Europe, we outperformed a flat market in Germany, whilst growing substantially in France, Poland and Austria. In market terms, the weakness of the UK foundation sector was mitigated by the buoyant repair and renovation sector.

The Americas

Results from our North American operations were once again excellent in 1999 with sales growing 9% to £107.4m and operating profit increasing 24% to £12.0m. The operating profit margin increased by over one percentage point on last year to reach a record 11.2% with both major subsidiaries, Hayward Baker and Case, performing well. In Hayward Baker, all regions of the business performed at or above budget with a particularly strong performance from the Southern and Central Regions. The strength of these regions lies in their coverage of the local markets with their sales derived from a large number of small to medium sized contracts. The result from the Central Region includes a full year's trading from Denver Grouting whose results were in line with expectations. In other regions, major contracts completed included the third phase of a jet grouting job in Battery Park, New York, and a substantial vibro contract for the extension of the airport at Manchester, New Hampshire. Hayward Baker, along with Case and a third partner, were the general contractors for a highway realignment and slope stability contract on State Road 9 in Kentucky which was completed on budget and some six months ahead of schedule. In the western half of the USA, major projects included a tunnel grouting contract for the Los Angeles subway, a jet grouting project in Idaho, an anchorage contract for a dam in California, along with several large ground improvement projects using our vibro systems.

The performance by Case was the best since acquisition in 1994 with sales growing 18%. All divisions of Case performed well with the Western Division producing an excellent result. Major projects included caissons and a diaphragm wall and retention system for a high-rise development at the River East Center in Chicago and caissons for a multistorey condominium development at One North Wacker Drive, also in downtown Chicago. In the Eastern Division, caissons were constructed to support a light rail transit system in New Jersey and the Harborside Financial Center in Jersey City. Furthermore, work was substantially completed on the I23 and I90 intersection contract in Boston. Case's Florida based subsidiary, Case Atlantic, saw considerable benefit from the TEA 21 money approved by Congress with work for the upgrading of highway bridges in Florida, Alabama, Georgia and North Carolina.

Outside the USA, volumes fell below expectations with Keller Cimentaciones in Mexico failing to meet budget after a very slow first half but showing steady improvement in the second half of the year. In Canada, work was successfully completed on the underpinning of the Capitol Building in Saskatchewan while vibro work was undertaken in the port of Vancouver to support new wharf structures. In Puerto Rico, several medium sized jobs were completed during the year.

United Kingdom

In the UK, Keller Ground Engineering operated in a flat foundation sector whilst Makers operated within the rapidly growing concrete repair and refurbishment sector.

The ground engineering market remained very competitive in 1999 with little sign of any real consolidation despite realignment within the wider general construction market. This, combined with the lack of large projects, in particular in the infrastructure sector, gave rise to difficult market conditions. Despite this lack of opportunities, sales in the ground engineering business increased over 1998 but at the expense of depressed margins. Going forward, therefore, we will reposition our ground engineering business in the UK to concentrate on sectors which produce higher margins. Notable projects completed during the year included several contracts at Canary Wharf and further work for both London Underground and Railtrack. At the end of the year a major driven piling job in South Wales was completed while, further north, Keller successfully relevelled the floor slab of a major shopping centre where settlement had disrupted operations. In Scotland, work commenced on compensation grouting to the Royal Scottish Academy in Edinburgh.

By contrast, the concrete repair and refurbishment markets in which Makers operated were strong with a high level of opportunities available. Taking advantage of this good market allowed Makers' volume to grow by some 40% with obvious benefits to operating profit. It is anticipated that this good market will continue as the Government commits additional funding for the upgrading of the country's housing stock. Major projects undertaken during the year included the repair of the Hammersmith Bridge, London, which was completed in time to allow reopening prior to the year end and also substantial completion of the refurbishment of the Russell Coates Museum, Bournemouth. Several tower block renovations were also undertaken in the year not only in the London area but also in the Midlands and the North of England. The Car Park Division had a busy year with the completion of several contracts and ongoing work at both Heathrow and Gatwick airports.

Continental Europe and Overseas

Our Continental Europe and Overseas operations had a highly successful year in 1999 with operating profit some 35% ahead of last year on sales 18% up on 1998. In Continental Europe, we achieved improved performance in Germany whilst successfully pushing ahead with aggressive growth in other European countries. In Germany, we reversed the trend of declining sales despite a flat market and, in addition, improved margins from productivity gains in our major product lines and by tighter quality control at both design stage and site level. We continued to achieve good results at the Lausitz sites where up to six vibrators worked to densify deep deposits of waste from old coal workings. In the fourth quarter we undertook a large void filling contract on the Frankfurt to Cologne high speed railtrack which required a rapid response and had to be completed to a very tight time schedule.

Outside Germany, we continued our successful penetration of the French market with sales growing strongly in part as a result of opening two new regional offices to bring us closer to our clients. Our French company also performed a major piling contract for Expo 2002 at Neuchâtel, Switzerland, with the work for the second phase at Bienne to follow this year. The pile installations are in the lakes to support a major deck structure. Significant growth was also achieved in Poland where projects for foundation support of a Tesco supermarket at Czestochowa and a deep soil mixed wall for flood control to protect the city of Krakow were successfully completed. We will continue to push ahead aggressively in Poland and prospects for 2000 are excellent.

Results from Austria were very good with major projects being undertaken to rehabilitate both a quay wall and three historical gasometers near Vienna, whilst in Italy a large excavation some 28 metres deep using Soilcrete and anchors was undertaken. In Portugal, a major dewatering contract for a new dry dock at Setubal was completed.

In our Overseas operations, the results from the Middle East were strong and included for the first time a full year of results from Genco in Egypt. Genco performed well with the completion of major contracts in Alexandria in the El Mex industrial area and also a number of jobs in Cairo. Whilst opportunities were weak in Saudi Arabia, our operations in the Gulf states were very busy with major projects in Qatar, Abu Dhabi and Dubai. The Far East continues to be difficult as the economic recovery is progressing at a slower than anticipated pace. Despite this, however, we continue to work at Changi Airport in Singapore and also at Putra Jaya in Malaysia. Late in the year we commenced work in the Philippines on a ground improvement project at an onshore gas receiving station.

Australia

In its first full year as a member of the Keller Group, Franki Pacific Holdings performed well with sales slightly ahead of last year in the equivalent period with profit however some 20% behind last year's excellent result. The continuing uncertainties in Indonesia contributed to the decline in profits as this market remains depressed. As anticipated at the time of the acquisition, the New South Wales market declined in 1999 on completion of some of the structures related to the 2000 Olympics and margins hardened as a result. The decline in New South Wales was to some extent offset by strong activity in Melbourne where several high rise residential developments were completed using driven precast piles. Franki installed the piling for a major shopping centre in Queensland whilst in Victoria we installed the bored piles to support an important eye clinic.

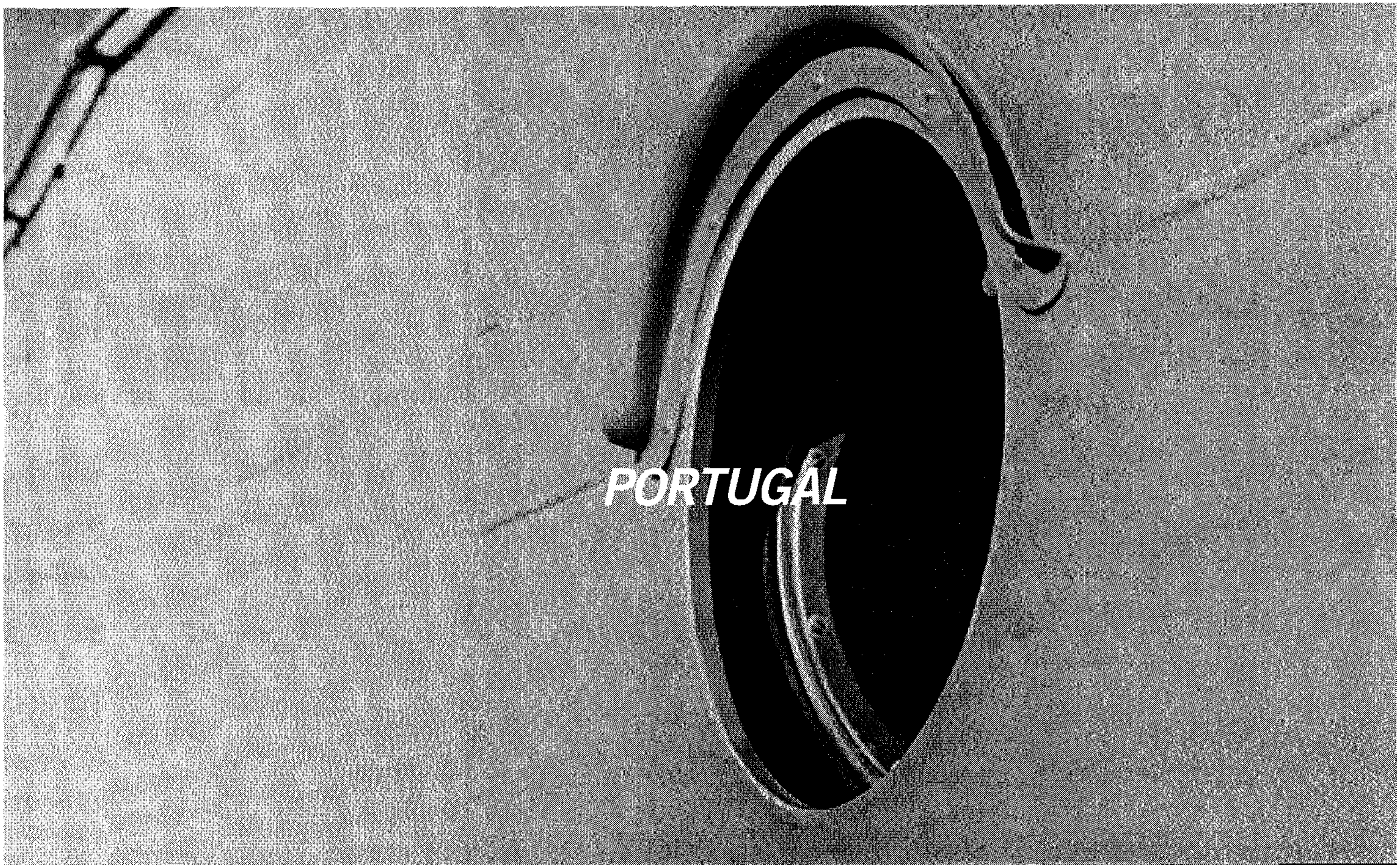
Strategy

The Group will continue to pursue organic growth in its core ground engineering business together with acquisitions to enhance geographical coverage, product range and technical excellence. Continental Europe offers opportunities for organic growth in countries such as France, Italy and Poland while in North America and Australia there is scope for additional acquisitions to reinforce our leading position in these markets. The success of our Makers business in the UK concrete repair and refurbishment sector gives us confidence to continue the expansion of these and related services in both the UK and overseas.

While the dynamics of the markets in which we operate are constantly changing, I am confident that the Group's well balanced geographical and product base combined with an aggressive approach to those acquisitions which offer growth opportunities, will ensure continued success in the future.

T Dobson Chief executive
8 March 2000

Kentucky, Route 9 *Piling and ground anchors were used to deal with a major realignment and related slope stability problems along State Road 9, Kentucky. Hayward Baker and Case, together with a third party, completed this complex project to budget and six months ahead of schedule.*



Setubal, dry dock *A major new dry dock facility on the river Sado on the Atlantic coast is being built to cater for large ships. Keller performed dewatering works and vibro compaction on this technically demanding project.*

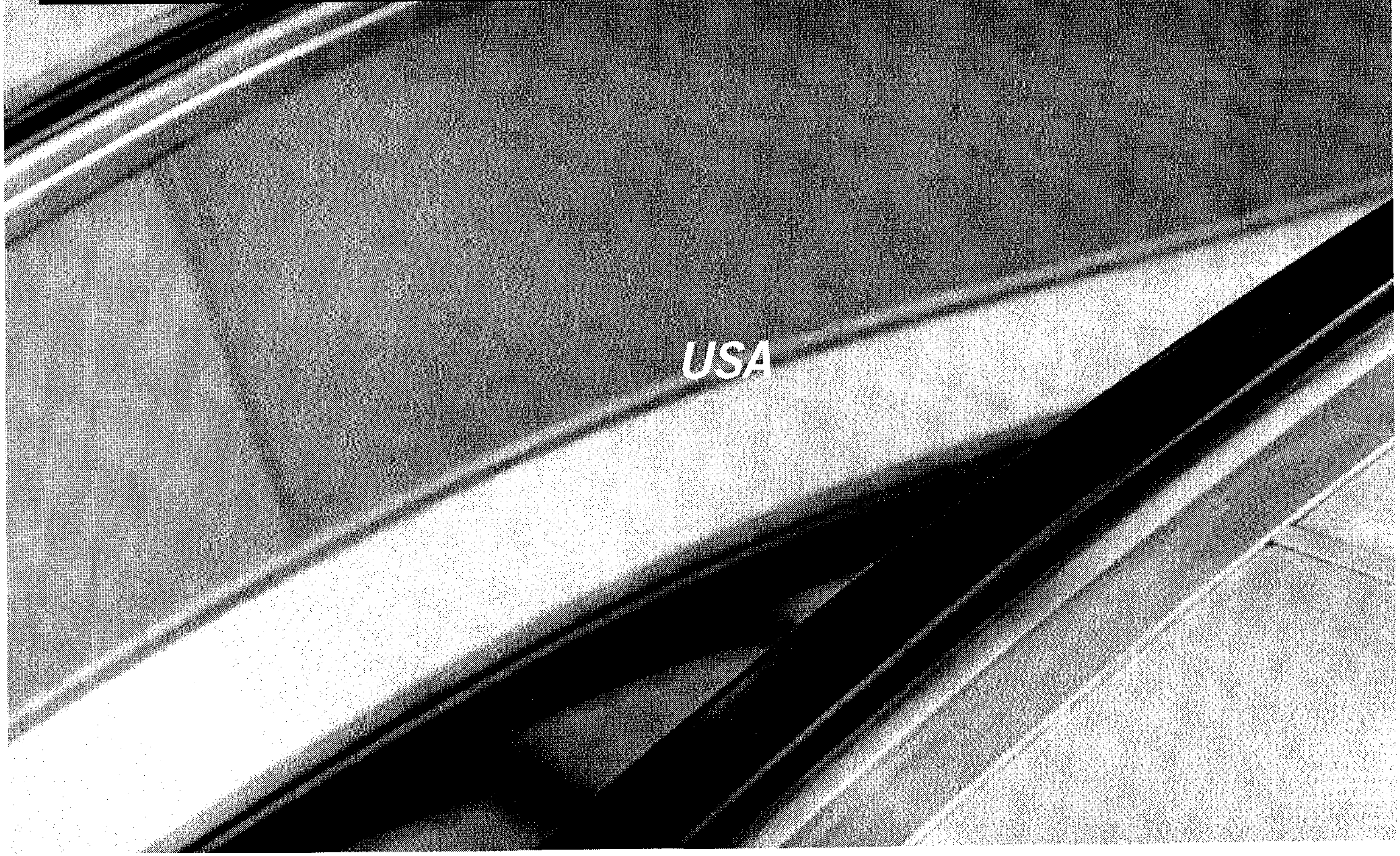
Sydney, International Airport *The Olympic Games to be held in Sydney have required significant infrastructure improvements. At Sydney International Airport, Franki installed pile foundations to support terminal extensions.*

Antwerp, railway station *Keller is working to safeguard the Central Station at Antwerp using its Soilfrac compensation grouting techniques whilst tunnelling for the new Belgian high speed rail link passes underneath the 125 year old station building.*

London, car park *Makers has undertaken the renovation of many car parks involving specialist concrete repair together with improvements to flooring, lighting, internal signs and decorations.*

UNITED KINGDOM

Los Angeles, subway *Infrastructure projects continue to test Keller's ability to solve geotechnical problems. In Los Angeles, extensive grouting work was done to facilitate tunnelling on the new Metro.*



Lausitz, environmental improvements *In the Lausitz area, in the south east of Germany, extensive opencast coal workings have left many acres of derelict land. Keller is using its depth vibrators to secure the stability of the land as part of a major environmental improvement programme over the next five years.*

UNITED KINGDOM

Edinburgh art gallery, *The Royal Scottish Academy in Edinburgh is undergoing a major refurbishment programme. As part of this work Keller used its specialist compensation grouting techniques to underpin the old foundations.*

FINANCIAL REVIEW

Turnover for the Group increased 18% year on year to £314.9m. Of this amount, only 26% originated in the UK with one third coming from the USA and 40% coming from more than 20 other countries in Continental Europe and Overseas. This means that a large proportion of the Group's net assets are denominated in currencies other than Sterling which gives the Group an exposure to translational exchange risk. The difference in average exchange rates year on year resulted in a positive effect on operating profit of £232,000 in 1999. Of the two main currencies to which the Group is exposed, the US dollar strengthened by 3% whilst the Euro weakened by 13% during the year. The Group is present in a large number of national markets and therefore there is little cross border activity necessary to service contracts. The Group's management of currency risk is explained in detail on page 20.

The net interest charge for the year was similar to last year at £345,000. Although the net cash positions improved during the year, such benefits were primarily offset by a year on year reduction in interest rates in the UK.

In the period since flotation in 1994, the Group's gearing position has not been higher than single figures in percentage terms at the end of each year. At December 1999, however, the Group had net funds of some £5.3m. Indeed, throughout the year, the gearing ratio was never more than single figures compared to an average of 11% and a peak of 24% in 1998.

This improved position arose as a result of excellent cash *inflows particularly in the USA and Continental Europe and* further because the Group did not have major expenditure on acquisitions during the year. The controls of working capital were particularly strong such that year end levels reduced over last year even though activity levels increased considerably.

The Group increased its capital expenditure over recent years in its main areas of operations to ensure that its fleet of equipment was either replaced or enhanced appropriately to cope with the increasing volumes of activity.

The effective tax charge increased only marginally in the year to 35.4% but was lower than the anticipated effective rate because there was a higher than expected proportion of profits earned either in locations that were subject to low tax rates or where there were prior year tax losses to utilise. The effective rate is still considerably higher than the UK corporation tax rate of 30% because of the proportion of profits earned in several countries where the tax rate is higher than in the UK.

The minority interest charge for the year reduced over 1998 directly as a result of the losses sustained in our Indonesian subsidiary where there is a 40% minority and because the activity from our Saudi operations, where there is a 35% minority, was 30% lower than in 1998.

The weighted average number of shares in issue during the year increased by some 306,000, as a result of the exercise of share options by senior executives during the latter part of 1998 and during 1999. This had a marginal impact on earnings per share which nevertheless increased by 16% to 21.5p. The share issue proceeds in 1999 were only £133,000 *compared to £658,000 last year leaving some 225,000 share* options currently outstanding.

The dividend cover increased to a healthy 2.8 times based upon a dividend increase of 10% on last year. The final ACT repayment of £0.9m, arising out of the foreign income dividend regime, was received in October 1999.

The acquisitions that were made in 1998 all performed well in the first full year of operations although the Franki business was affected by the losses in Indonesia. An impairment review of the goodwill arising from these acquisitions resulted in no change to the existing amortisation policy. No acquisition of any size was made in 1999 although, as a result of our due diligence process, a potential acquisition was aborted in mid year. During the year, cash payments of £550,000 were made in relation to deferred purchase considerations in respect of acquisitions undertaken in prior years.

Compliance with the UK financial reporting standards numbers 12 and 13 which were followed for the first time have had no material effect on the Group's reporting this year.

The net asset base of the Group increased by some 15% to £51.9m over the last year despite a negative impact of currency movements of £0.9m. With no gearing and available headroom on unutilised banking facilities, the Group is in a good position to make further acquisitions in 2000 and beyond.

J R Atkinson Finance director
8 March 2000

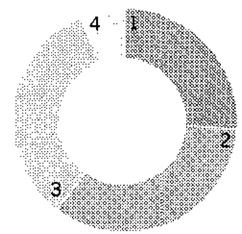
Turnover by area (£m)

1 UK 82.3

2 The Americas 107.4

3 Continental Europe and Overseas 104.4

4 Australia 20.8



Operating profit by area (£m)*

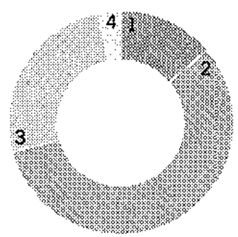
*Excludes unallocated central costs of £1.8m

1 UK 2.9

2 The Americas 12.0

3 Continental Europe and Overseas 5.5

4 Australia 0.7



BOARD OF DIRECTORS

1 ***Dr J M West***
Non-executive chairman

Joined the Group in 1964. Chief executive of Keller Group of companies 1982-95. Appointed director of Keller Group in 1990. Appointed chairman in 1995 and became non-executive chairman upon retirement in 1997. Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. Aged 62.

2 ***T Dobson***
Chief executive

Joined the Group in 1966. President of North American operations in 1986-99, now chairman. Appointed director of Keller Group in 1990, managing director in 1995 and chief executive in 1997. Member of the Nomination Committee. Aged 57.

3 ***J R Atkinson***
Finance director

Joined the Group in 1990. Group financial controller from 1995-99. Appointed finance director on 11 October 1999. Aged 39.

4 ***M W C Martin***
Director

Joined the Group in 1967. Managing director of Keller Ltd since 1986. Appointed director of Keller Group in 1990. Aged 58.

5 ***K Kirsch***
Director

Joined the Group in 1969. Managing director of Keller Grundbau GmbH since 1985. Appointed director of Keller Group in 1990. Aged 61.

6 ***Dr H Peipers***
Non-executive director

Appointed to the board in 1995. Member of the Audit and Remuneration Committees. Retired from the board of Hochtief AG in 1994, where he was responsible for finance, legal affairs and international operations. Aged 72.

7 ***Dr K Bond***
Non-executive director

Appointed to the board on 1 July 1999. Chairman of the Remuneration Committee, a member of the Audit Committee and the senior independent non-executive director. Chief executive of Kelda Group plc since 1996 prior to which he was chief executive at the National Rivers Authority. Dr Bond is also a non-executive director of Waste Recycling Group plc. Aged 49.

8 ***K Payne***
Non-executive director

Appointed to the board on 1 July 1999. Chairman of the Audit Committee and a member of the Remuneration and Nomination committees. From 1991 to 1996 he was an executive director of BET plc with responsibility for finance, planning and development. Mr Payne is the non-executive chairman of Multi Equipment Rental plc. Aged 57.

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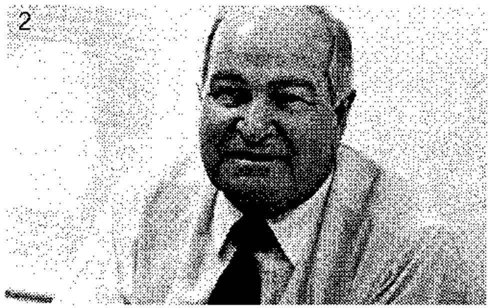

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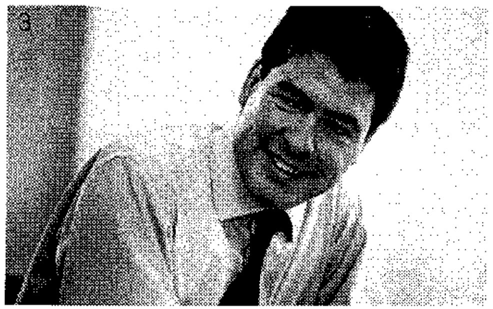

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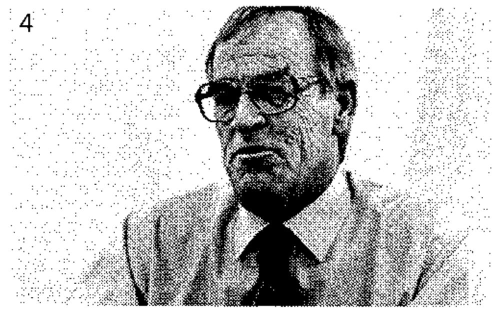

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DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 31 December 1999.

Principal activities
Keller Group plc is a holding company. Its principal subsidiary undertakings are engaged in specialised ground engineering and structural renovation providing the construction industry around the world with an extensive range of problem solving techniques and services.

Business review
The operations of the Group are reviewed in detail on pages 4 to 17.

Results and dividends
The results for the year showing a profit before taxation of £19,041,000 (1998: £16,702,000) are set out on page 28. The directors recommend a final dividend of 5.2p per share, to be paid on 31 May 2000, to members on the register at the close of business on 8 May 2000. An interim dividend of 2.6p per share was paid on 29 October 1999. The total dividend for the year of 7.8p (1998: 7.1p) will amount to £4,428,000 (1998: £4,021,000).

Directors
Dr K Bond and Mr K Payne were appointed as non-executive directors on 1 July 1999. Sir Thomas Macpherson resigned as a non-executive director on 31 July 1999. Mr R Painting resigned as finance director on 11 October 1999 and Mr J Atkinson was appointed in his stead. All of the other directors, as set out on page 19, served throughout the year. Dr H Peipers will retire, by rotation, at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. Dr Peipers does not have a service contract with the Company.

The directors' interests in the ordinary share capital of the Company are set out on page 23.

Substantial shareholdings
At 8 March 2000 the directors had been notified of the following substantial interests in the Company's issued ordinary share capital:

	Ordinary shares	% of issued ordinary share capital
Schroder Investment Management Ltd	9,808,044*	17.3
Prudential Corporation	3,951,124	7.0
Legal & General Investment Management Ltd	2,712,801	4.8
AMP Asset Management plc	2,420,904	4.3
Standard Life Investments Limited	2,059,185	3.6

Apart from the above interests and those of Dr J M West, the non-executive chairman, the Company has not been notified and is not aware of any other person who is directly or indirectly materially interested in 3% or more, or who has a non-material interest in 10% or more, of the issued ordinary share capital of the Company.

* The Company has been advised that these are not "material interests" within the meaning of Section 199 of the Companies Act 1985 (as amended).

Research and development
Keller has a reputation for engineering excellence and innovation. The Group has in-house design, development and manufacturing facilities where staff work closely with site engineers to continually develop new and more effective methods of solving problems of ground behaviour. Most of the specialised equipment used is designed and built by Keller.

Management of financial risks
Currency risk
The Group faces currency risk principally on its net assets, of which a large proportion are in currencies other than Sterling. In order to reduce the impact that re-translation of these assets might have on the balance sheet, the Group manages its borrowings, to the extent possible, to hedge its foreign currency assets. Where possible, hedging is carried out by borrowing in the same currency as the assets being hedged.

The Group manages its currency flows to minimise currency transaction exchange risk and forward contracts are used to hedge significant individual transactions. The majority of such currency flows within the Group relate to repatriation of profits and intra Group loan repayments. The Group's foreign exchange cover is executed primarily in the UK and at 31 December 1999 the principal value of forward exchange contracts amounted to £1.7m.

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

Interest rate risk
Historically, the Group has had a low level of borrowings. However, interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose of the financing. All drawdowns against the Group's central borrowing facility are reviewed and the interest rate adopted depends upon the interest rate outlook for the subsequent six months. The facility affords the Group the ability to choose from one, three or six month interest rates for its drawdowns.

Credit risk
Amounts deposited with banks and other financial institutions give rise to credit risk. This risk is managed by limiting the aggregate amount of exposure to any such institution by reference to their credit rating and by regular review of these ratings. The possibility of material loss in this way is considered unlikely.

Corporate governance
The Company's compliance with the Combined Code as established by the Hampel Committee is set out on pages 25 and 26. The Remuneration Report is set out on pages 22 to 24.

Going concern
The accounts have been prepared on the going concern basis as the directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

Payments to suppliers
The Group's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms, providing that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any code or statement on payment practice.

At 31 December 1999 the Group had 58 days (1998: 56 days) purchases outstanding.

Political and charitable contributions
No contributions were made to any political party during the year. Donations made by the Group in the UK for charitable purposes were £2,000 (1998: £1,350).

Employee involvement
Subsidiary undertakings throughout the Group have developed their own employee involvement and communications programmes. Communications programmes incorporate a financial report for employees and regular briefings by senior executives to small groups of employees covering the financial performance of the Group and the individual company. Employees are encouraged to put forward suggestions and comment on any issues likely to affect their interests.

Disabled persons
It is the policy of the Group to employ and train disabled people wherever their skills and qualifications allow and when suitable vacancies are available. Disabled employees are given encouragement to undertake training and career development to enable them to be considered for promotion. Should existing employees become disabled, every effort is made to find appropriate work and training if necessary.

Year 2000
The programmes which were established to identify and action the key business risks relevant to Year 2000 compliance have, to date, been successful in the accounting, administration and operating systems of the business and no material deficiencies in any area have yet occurred. No residual risks and uncertainties have currently been identified in any of the operating subsidiaries although this area will be monitored throughout the remainder of 2000. The costs incurred by the Group in ensuring year 2000 compliance have not been material.

The environment
The Group continues to maintain a positive approach towards environmental issues and is committed to compliance with all relevant laws and regulations. To this end, subsidiary undertakings are required to maintain their own environmental policies and to ensure that they comply with the legislation and standards applicable to the industries and countries in which they operate.

Special business at the Annual General Meeting
The full wording of the resolutions to be tabled at the forthcoming Annual General Meeting is set out on pages 50 and 51.

Resolution number 8 – Scrip dividends
Article 158 of the Company's Articles of Association permits the directors, subject to the authority of the Company in general meeting, to offer to shareholders the right to elect to receive ordinary shares, credited as fully paid, instead of cash in respect of dividends declared by the Company or by the directors. The board recommends that by an ordinary resolution it be given authority to make such offers until the date of the Annual General Meeting to be held in 2001.

Resolutions numbered 9 and 10 – Authority to allot shares
Under the Companies Act 1985, the directors of the Company may only allot unissued shares if authorised to do so by the shareholders in a general meeting. Resolution 9 renews the directors existing authority by authorising the directors to allot shares having a nominal value of up to one-third of the issued ordinary share capital of the Company at the date of the notice. If new shares are to be issued pursuant to this authority, and are to be paid for in cash, the Companies Act 1985 requires that they must first be offered to existing shareholders, unless the approval of shareholders is given to disapply the relevant provisions of the Act. Resolution 10, in addition to empowering the directors to allot shares by way of rights issue to existing shareholders, also authorises the directors to allot shares for cash, other than to existing shareholders, but limited to shares having a nominal value of up to 5% of the issued ordinary share capital of the Company at the date of the notice. There is no present intention of exercising these authorities when they become effective except in connection with the Company's executive share option scheme.

Resolution number 11 – Purchase of the Company's own shares
This resolution grants a limited authority to the Company to purchase through the market up to 10% of the issued ordinary share capital. The resolution specifies the maximum and minimum prices at which the shares may be bought at the date of the notice. The authority sought will expire on the earlier of the conclusion of the next Annual General Meeting or 11 May 2001. The directors have no immediate intention of exercising the proposed authority when it becomes effective. Any purchases will only be made when, in the opinion of the directors, an improvement in earnings per share of the remaining shares is anticipated *and it is in the best interests of shareholders generally. Any shares so* purchased will be cancelled and the number of shares in issue will be reduced accordingly.

Auditors
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

J R Atkinson Secretary
8 March 2000

REMUNERATION REPORT

The principal function of the Remuneration Committee (the "Committee") is to determine, on behalf of the board, the remuneration packages of the executive directors and to take decisions regarding the Group's long term incentive plans. The composition of the Committee is given on page 25. The Committee has followed the provisions in Schedule B of the Combined Code in preparing this report.

Remuneration policy

The Committee aims to ensure that the executive directors are fairly rewarded for their individual contributions to the Group's overall performance. Each director is assessed individually so that his remuneration is directly related to his performance over time and so that a significant proportion of his remuneration package is performance related. The Committee seeks to ascertain a market rate by comparison with similar companies in the industry sector and pay an amount similar to such rate unless specific circumstances apply. The Committee is responsible for recommendations on all elements of directors' remuneration including, in particular, basic salary, annual bonus, long term incentives and other benefits. The Committee has followed the provisions in Schedule A of the Combined Code in assessing performance related remuneration.

(i) Basic salary

The basic salary for each director is intended to be competitive, but fair, using information provided both by external and internal sources.

(ii) Performance related annual bonus

The percentages for annual bonuses are set by the Committee and are dependent upon challenging targets linked to the Group's and, where appropriate, the relevant division's operating performance in the year. Such targets include earnings per share and divisional profit. A maximum bonus of 40% of basic annual salary may currently be awarded. This performance related bonus is not pensionable.

(iii) Long term incentive plans

The Keller Group plc Deferred Annual Bonus Scheme (the "Scheme"), a long term incentive plan for the executive directors of the Company and a limited number of the Group's senior employees, was adopted during 1998. The operation of the Scheme is dependent upon the discretion of the Committee and the executive directors of the Company. Participants in the Scheme are required to defer 50% of their performance related annual bonus in the form of shares in the Company for a period of three years. At the end of the three year deferral period matched shares may be awarded up to a maximum of two matched shares for every one share deferred depending upon the Group's earnings per share growth and the performance of the Group against a group of comparator building and construction companies. This comparative performance is measured by total return to shareholders using share price and dividend criteria.

Directors' emoluments

	Basic salary 1999 £000	*Fees 1999 £000*	*Benefits 1999 £000*	*Annual bonus* 1999 £000*	*Compensation for loss of office £000*	*Total emoluments 1999 £000*	Total emoluments 1998 £000
Executive							
J R Atkinson (from 11 October 1999)	20	–	2	30	–	52	–
T Dobson (highest paid director)	192	–	40	66	–	298	278
K Kirsch	121	–	20	45	–	186	181
M W C Martin	110	–	9	20	–	139	143
R P Painting (to 11 October 1999)	93	–	7	–	107	207	172
Non-executive							
Dr J M West	65	–	11	–	–	76	80
Sir Thomas Macpherson	–	15	13	–	–	28	25
Dr K Bond (from 1 July 1999)	–	10	–	–	–	10	–
K Payne (from 1 July 1999)	–	10	–	–	–	10	–
Dr H Peipers	–	15	–	–	–	15	15
	601	50	102	161	107	1,021	894

* 50% of this amount will be deferred for a period of at least three years as explained in note (iii) above.

Once the matched shares have unconditionally vested, participants may sell their deferred shares and matched shares at any time or they have the opportunity to earn additional matched shares at the rate of one additional matched share for every five shares retained for a two year retention period following the deferral period.

The cost to the Group of the matched shares and the additional matched shares is charged to the profit and loss account.

No award of shares, matched shares or additional matched shares shall form part of a participant's pensionable salary.

Share purchases in relation to the Scheme are made in the market using funds provided to it by the Group to cover anticipated awards by the Keller Group plc Employee Benefit Trust, the trustees of which are Guinness Flight Trustees S.a.r.l.

Details of the shares awarded are shown on page 24 under directors' interests in long term incentive plans.

In addition to the Scheme there is an Inland Revenue approved executive share option scheme which was established in 1995 having regard to both the joint guidance note issued by the Association of British Insurers and the National Association of Pension Funds and with statutory and listing requirements. In normal circumstances options are exercisable at any time between three and ten years after the date of grant and only while the executive remains in the Group's employment.

There is also a share appreciation rights scheme which was introduced primarily to enable overseas executives to be granted comparable incentives to those available to their UK colleagues under the executive share option scheme.

Awards under these long term incentive plans provide an additional incentive to executive directors and senior employees and further align the interests of management and shareholders.

(iv) Other benefits
The Committee aims to provide an objective and independent assessment of all forms of benefits granted to directors and to ensure that there are adequate pension arrangements.

(v) Service contracts
T Dobson has two service agreements, one in his capacity as chairman of Keller Foundations Inc which is terminable on two years' notice by the employer, and the other in his capacity as chief executive of Keller Group plc which is terminable on one year's notice. The service agreements for K Kirsch and M W C Martin are each terminable on two years' notice by the employer. The service agreement for J R Atkinson is terminable on one year's notice by the employer. Service contracts in excess of one year exist for certain directors. Given the long periods of service to the Group by these directors, it is not considered appropriate, at this time, to renegotiate these contracts. The Company seeks to apply the principle of mitigation in the payment of compensation on the termination of the service agreement of any executive director.

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

	At 31 Dec 1999 Ordinary shares	At 31 Dec 1998 Ordinary shares
J R Atkinson	***24,134***	–
T Dobson	***904,000***	910,000
K Kirsch	***958,850***	958,850
M W C Martin	***960,000***	960,000
Dr J M West	***1,948,000***	1,948,000

There have been no changes in the directors' beneficial interests during the period from the end of the financial year to 8 March 2000.

Directors' pension rights
J R Atkinson, M W C Martin and Dr J M West are all members of the Keller Group Pension Scheme. On retirement at age 65, J R Atkinson will be eligible for a pension based upon a percentage of final salary. This percentage will increase with pensionable service to a maximum of two-thirds. M W C Martin will be eligible for a pension of two-thirds of final pensionable salary on retirement at age 60. Dr J M West, having retired in 1997, received a pension of £124,000 in 1999. This scheme also provides a lump sum death in service benefit and pensions for dependants on death in service or following retirement.

K Kirsch is a member of a defined benefit scheme based upon final salary operated in Germany where his normal retirement age is 65. The scheme also provides a lump sum death in service benefit and pensions for dependants on death in service or for his spouse following death in retirement.

T Dobson is a member of a defined contribution scheme operated in the USA. His normal retirement age is 65. Company pension contributions to this scheme in 1999 in respect of T Dobson were £8,000 (1998: £8,000).

	Age at 31 Dec 1999	Directors' contributions during the year £000	Increase in accrued pension during the year £000	Transfer value of increase £000	Total accrued pension entitlement at 31 Dec 1999 £000
J R Atkinson*	39	1	1	1	8
K Kirsch	61	–	4	43	40
M W C Martin	58	–	4	58	69

* The contributions and increase in accrued pension for Mr Atkinson are those in the period from 11 October 1999.

The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year and the increase in accrued pension entitlement during the year excludes any increase for inflation.

Directors' interests in long term incentive plans

Deferred annual bonus scheme

	Awards at 1 January 1999 Number	Awards made in the year Number	***Awards at 31 December 1999 Number***	***Provisional awards in relation to 1999 Number***
J R Atkinson	–	5,634	***5,634***	***5,923***
T Dobson	–	17,257	***17,257***	***13,052***
K Kirsch	–	11,157	***11,157***	***8,845***
M W C Martin	–	6,326	***6,326***	***3,909***

The awards made in 1999 relate to the deferred element of the 1998 annual bonus and will vest unconditionally in March 2002.

An accrual for the 1999 awards is included as part of the annual bonus in the directors' emoluments table on page 22. Awards in relation to 1999 will be made on 9 March 2000 based upon the average daily share price in the 30 consecutive dealing days immediately preceding the award.

The average daily share price on this basis to 8 March 2000 was 253.27p which would result in 31,729 shares being awarded to the directors on 9 March 2000 under the terms of the Scheme.

Share option scheme

All share options granted under the Keller Group plc Inland Revenue Approved Executive Share Option Scheme and share appreciation rights were granted on 26 April 1995.

	At 1 January 1999	***Granted in 1999***	***Exercised in 1999***	***At 31 December 1999***	***Exercise price (p)***
Share options					
J R Atkinson	***14,800****	–	–	***14,800***	***102.0***
T Dobson	***80,000***	–	–	***80,000***	***102.0***
K Kirsch	***15,150***	–	–	***15,150***	***102.0***
	109,950	–	–	***109,950***	

* This represents the number of options held by Mr Atkinson at the date of his appointment to the board.

There were no gains made by the directors during the year requiring disclosure.

The market price of the shares at 31 December 1999 was 270.5p and the range during the year was 196.5p to 318.5p. The conditions set for the exercise of the options, being a real growth in earnings per share over three consecutive years at some time between the date of grant of the option and the date of exercise where real growth means a percentage increase of not less than 6% above the increase in the Retail Prices Index, were met on 26 April 1998. The remaining options may be exercised at any time up to 26 April 2005.

Share appreciation rights

There were no share appreciation rights outstanding at any time during the year.

On behalf of the board

Dr K Bond Chairman, Remuneration Committee
8 March 2000

CORPORATE GOVERNANCE

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

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

The directors consider that the Group has been in compliance throughout the year with the code provisions set out in Section 1 of the Combined Code issued by the Stock Exchange with the following exceptions:

(i) All directors are not subject to retirement by rotation as detailed below.

(ii) Not all directors have service contracts of one year or less as detailed on page 23.

(iii) The Remuneration Committee is comprised of non-executive directors, but one of them is not considered by the board to be independent of management.

Directors

The board comprised four executive and three non-executive directors until 1 July 1999 when Dr K Bond and Mr K Payne were appointed non-executive directors. Sir Thomas Macpherson retired as a non-executive director on 31 July 1999 leaving the board comprised of four executive and four non-executive directors. Dr K Bond, Mr K Payne and Dr H Peipers are considered by the board to be independent of management with Dr K Bond as the senior independent director. There is an agreed procedure for individual directors to obtain independent legal advice and all directors have unrestricted access to the company secretary and chairman.

There is a clear division of responsibilities between Dr J M West as non-executive chairman and Mr T Dobson who, as chief executive, is the director ultimately responsible for the running of the Group's business. The board meets regularly throughout the year to monitor the Group's performance and to take decisions based upon a schedule of matters specifically reserved for its approval. Board papers and other relevant information are supplied to the board members in advance of the meetings to enable directors to be properly briefed on topics to be discussed at these meetings.

A Nomination Committee was established on 1 October 1999 and is chaired by Mr K Payne, the other members being Dr J M West and Mr T Dobson. This committee monitors the composition and balance of the board and recommends to the board the appointment of new directors.

According to the Company's Articles of Association, all non-executive directors are subject to retirement by rotation. Any subsequent re-appointment is not automatic as a re-election is voted on at the Annual General Meeting. Executive directors are not currently subject to retirement by rotation.

Directors' remuneration

The Remuneration Committee is comprised of the four non-executive directors and was chaired by Sir Thomas Macpherson until his retirement *on 31 July 1999 from which point the Committee has been chaired by* Dr K Bond. This committee is responsible for determining the remuneration packages of the executive directors and for taking decisions regarding the Group's long term incentive plans. The remuneration for the non-executive directors is determined by the board. The Remuneration Report is set out on pages 22 to 24.

Relations with shareholders

Where practicable throughout the year, with the exception of closed periods, the Company meets with and makes presentations to institutional investors. All directors of the Group are available to answer questions at the Annual General Meeting which is considered to be the most effective way of keeping private investors informed of the Group's progress. The notice of the Annual General Meeting on pages 50 and 51, detailing all proposed resolutions, will be posted to shareholders at least 20 working days prior to the meeting.

Accountability and audit

The Audit Committee is comprised of the four non-executive directors and was chaired by Sir Thomas Macpherson until his retirement on 31 July 1999 from which point the Committee has been chaired by *Mr K Payne. This committee meets at least twice a year and the* Company's auditors are in attendance at these meetings. The committee assists the board in observing its responsibility for ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position.

Internal control

The board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance, and risk management.

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. However, the directors have taken advantage of the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting.*

Nevertheless, the board confirm that they have established procedures necessary to implement the Turnbuill guidance such that they can fully comply with it for the accounting period ending on 31 December 2000.

On behalf of the board, the Audit Committee has reviewed the effectiveness of the system of internal financial control.

The principal elements of the internal financial control framework are as follows:

(a) Budgeting and forecasting
There is a comprehensive budgeting system with an annual budget approved by the directors. This budget includes monthly profit and loss accounts, balance sheets and cash flows. Forecasts for the full year are updated as considered necessary. In addition, detailed quarterly forecasts are prepared for the two subsequent years.

(b) Financial reporting
Detailed monthly management accounts are prepared which compare profit and loss accounts, balance sheets, cash flows and other information with budget, and significant variances are investigated.

(c) Cash control
A rolling 12 week cash forecast is prepared each week to monitor the Group's short term cash positions and to control immediate borrowing requirements.

(d) Investments and capital expenditure
All significant investment decisions, including capital expenditure, are referred to the appropriate divisional or Group authority level.

(e) Contract appraisal
A risk analysis covering technical, operational and financial issues is performed as part of the bidding process. The bidding of contracts is approved at the appropriate level.

Having reviewed its effectiveness, the directors are not aware of any significant weakness or deficiency in the Group's system of internal financial control.

Directors' responsibilities in relation to the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and estimates that are reasonable and prudent;

(c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

(d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

to the members of Keller Group plc

We have audited the financial statements on pages 28 to 49.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 26 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 25 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc KPMG Audit Plc

Chartered Accountants
Registered Auditor
8 March 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Note	***1999 Continuing operations Total £000***	1998 Continuing operations Total £000
Turnover	2	***314,899***	266,854
Operating costs	3	***(295,513)***	(249,811)
Operating profit	2	***19,386***	17,043
Net interest payable	5	***(345)***	(341)
Profit on ordinary activities before taxation	2	***19,041***	16,702
Taxation	6	***(6,749)***	(5,870)
Profit on ordinary activities after taxation		***12,292***	10,832
Equity minority interests		***(112)***	(354)
Profit for the financial year		***12,180***	10,478
Dividends paid and proposed	7	***(4,428)***	(4,021)
Retained profit for the financial year	20	***7,752***	6,457
Earnings per share	8	***21.5p***	18.6p
Diluted earnings per share	8	***21.4p***	18.5p

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above, and their historical cost equivalents.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 1999

	Note	***1999 £000***	1998 £000
Profit for the financial year		***12,180***	10,478
Currency translation differences on overseas investments	20	***(1,039)***	1,129
Tax effect of currency translation differences	20	***113***	102
Total recognised gains and losses relating to the year		***11,254***	11,709

The notes on pages 32 to 49 form part of these accounts.

CONSOLIDATED BALANCE SHEET

as at 31 December 1999

	Note	1999 £000	1998 £000
Fixed assets			
Positive goodwill	9	***1,613***	1,594
Negative goodwill	9	***(314)***	(419)
		1,299	1,175
Other intangible assets	10	***305***	331
Intangible assets		***1,604***	1,506
Tangible assets	11	***43,688***	42,839
Investments	12	**-**	–
		45,292	44,345
Current assets			
Stocks	13	***6,149***	5,929
Debtors	14	***73,400***	67,298
Cash at bank and in hand	25	***16,965***	14,131
		96,514	87,358
Creditors: amounts falling due within one year	15	***(72,668)***	(66,971)
Net current assets		***23,846***	20,387
Total assets less current liabilities		***69,138***	64,732
Creditors: amounts falling due after more than one year	16	***(11,451)***	(13,740)
Provisions for liabilities and charges	17	***(5,744)***	(5,958)
Net assets	2	***51,943***	45,034
Capital and reserves			
Called up share capital	19	***5,677***	5,664
Share premium account	20	***14,508***	14,388
Capital redemption reserve	20	***7,629***	7,629
Profit and loss account	20	***23,230***	16,404
Equity shareholders' funds	21	***51,044***	44,085
Equity minority interests		***899***	949
		51,943	45,034

These accounts were approved by the board of directors on 8 March 2000 and signed on its behalf by:

J M West Chairman
J R Atkinson Finance director

The notes on pages 32 to 49 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Net cash inflow from operating activities	22		***27,402***		22,676
Returns on investment and servicing of finance					
Interest received		***619***		820	
Interest paid		***(991)***		(889)	
Interest element of finance lease rental payments		***(108)***		(154)	
Finance costs of new bank loans		–		(48)	
Payments to minority interests		***(243)***		(11)	
			(723)		(282)
Taxation					
UK corporation tax paid		***(679)***		(967)	
Overseas tax paid		***(6,473)***		(4,279)	
			(7,152)		(5,246)
Capital expenditure					
Purchase of intangible fixed assets		***(38)***		(342)	
Purchase of tangible fixed assets		***(8,861)***		(5,996)	
Sale of tangible fixed assets		***621***		776	
			(8,278)		(5,562)
Acquisitions and disposals					
Acquisition of subsidiary undertakings		***(725)***		(7,091)	
Net cash acquired with subsidiary undertakings		–		933	
			(725)		(6,158)
Equity dividends paid			***(4,166)***		(3,767)
Net cash inflow before use of liquid resources and financing			***6,358***		1,661
Management of liquid resources					
Repayments from/(payments into) short term bank deposits			***642***		(1,428)
Financing					
Issue of new shares		***133***		658	
New bank loans drawn		***3,935***		5,972	
Repayment of bank loans and loan notes		***(7,101)***		(3,035)	
Sale and lease back transactions		–		1,031	
Capital element of finance lease rental payments		***(339)***		(510)	
Net cash (outflow)/inflow from financing			***(3,372)***		4,116
Increase in cash in the year	23		***3,628***		4,349

The notes on pages 32 to 49 form part of these accounts.

COMPANY BALANCE SHEET

as at 31 December 1999

	Note	1999 £000	1998 £000
Fixed assets			
Investments	12	***19,515***	19,515
Current assets			
Debtors*	14	***21,303***	17,834
Cash at bank and in hand		***2,807***	4,933
		24,110	22,767
Creditors: amounts falling due within one year	15	***(5,986)***	(4,380)
Net current assets*		***18,124***	18,387
Total assets less current liabilities		***37,639***	37,902
Creditors: amounts falling due after more than one year	16	***(3,439)***	(3,469)
Net assets		***34,200***	34,433
Capital and reserves			
Called up share capital	19	***5,677***	5,664
Share premium account	20	***14,508***	14,388
Capital redemption reserve	20	***7,629***	7,629
Profit and loss account	20	***6,386***	6,752
Equity shareholders' funds		***34,200***	34,433

* Debtors and net current assets include debtors recoverable after more than one year of £13,438,000 (1998: £13,252,000).

These accounts were approved by the board of directors on 8 March 2000 and signed on its behalf by:

J M West Chairman
J R Atkinson Finance director

The notes on pages 32 to 49 form part of these accounts.

NOTES TO THE ACCOUNTS

1 Principal accounting policies

(a) Basis of accounting
The accounts of the Group have been prepared under the historical cost convention in accordance with applicable accounting standards.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

(b) Basis of consolidation
The Group accounts consolidate the accounts of the parent company and its subsidiary undertakings made up to 31 December each year. Where subsidiary undertakings are acquired or sold during the year, the accounts include the results for the part of the year for which they were subsidiary undertakings.

The Company has taken advantage of the exemption in Section 230 of the Companies Act 1985 and has not produced its own profit and loss account. Of the consolidated profit after taxation of £12,180,000 a profit of £4,062,000 has been dealt with in the financial statements of Keller Group plc.

(c) Turnover
Turnover represents the valuation of work done on contracts performed during the year on behalf of clients or the invoiced value of goods and services charged to clients.

(d) Contract results
In the nature of the Group's business the results for the year include adjustments to the outcome of contracts, including unincorporated joint venture operations, completed in previous years arising from:

(i) claims by customers or third parties in respect of work carried out where full provision is made in the year in which the Group becomes aware that a claim may arise;

(ii) claims on customers or third parties for variations to the original contract which are not taken to profit until the outcome is reasonably certain, and

(iii) costs of insurance arrangements which can be adjusted retrospectively based on claims experience.

Where it is reasonably foreseen that a loss will arise on a contract, full provision for this loss is made in the year in which the Group becomes aware that a loss may arise.

(e) Joint arrangements
From time to time the Group undertakes contracts jointly with other parties. These fall under the category of joint arrangements that are not entities as defined by FRS 9. The Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements covering the joint arrangements.

(f) Depreciation
Depreciation is not provided on freehold land. Depreciation is provided on buildings, caisson and other long life equipment and computers using the straight line method and on all other categories of assets using the reducing balance method. Except in special cases, depreciation is not charged in the year of purchase or capitalisation. A full year's depreciation is charged in the year of disposal.

Depreciation is provided to write off the cost less the estimated residual value of the assets by reference to their estimated useful lives. The rates of depreciation used are:

	Straight line %	Reducing balance %
Buildings	2	–
Caisson and other long life equipment	8.33	–
Computers	33.33	–
Plant and machinery	–	27
Commercial vehicles	–	40
Other motor vehicles	–	44

Leased properties are amortised by equal instalments over the period of the lease or 50 years, whichever is the shorter.

(g) Research and development
Revenue expenditure on research and development is written off against trading profits as incurred.

(h) Capital work in progress
Capital work in progress represents expenditure on fixed assets in the course of construction. Transfers are made to other fixed asset categories when the assets are available for use.

1 Principal accounting policies continued

(i) Stocks

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

(j) Amounts recoverable on contracts

Amounts recoverable on contracts comprises work completed, or measurable parts thereof, not yet invoiced to clients, and is stated after making due allowance for irrecoverable amounts.

(k) Leases

Fixed assets acquired under finance leases are capitalised in the balance sheet at fair value and depreciated in accordance with the Group's accounting policy. The capital element of the leasing commitment is shown as *"obligations under finance leases"*. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, which reduces the outstanding obligation.

Rental costs in respect of operating leases are charged to the profit and loss account as incurred.

(l) Deferred taxation

Provision is made for deferred taxation only to the extent that it is probable that tax will become payable in the foreseeable future, calculated at the rate of tax expected to apply for the year in which the tax is expected to become payable.

(m) Pensions

The expected cost of providing pensions is recognised on a systematic and rational basis over the expected service lives of current employees.

(n) Goodwill and intangibles

Positive goodwill arising on consolidation, representing the difference between the fair value of the purchase consideration and the fair value of the net assets of the subsidiary undertaking at the date of acquisition, is capitalised as an intangible fixed asset and charged to the profit and loss account over the useful economic life of the asset.

Negative goodwill, where the fair value of the net assets is greater than the fair value of the purchase consideration of the subsidiary undertaking at the date of acquisition, is recognised separately on the balance sheet below positive goodwill. It is credited to the profit and loss account over a period in which the non monetary assets (usually fixed assets) are depreciated or sold.

Positive goodwill and negative goodwill arising prior to 1 January 1998 was taken directly to reserves in the year in which it arose. Such positive goodwill and negative goodwill has not been reinstated on the balance sheet. This positive goodwill or negative goodwill would be charged or credited to the profit and loss account on a subsequent disposal of the business to which it relates.

Intangible assets, other than goodwill, which are purchased, such as licenses, patents and trademarks are capitalised and charged to the profit and loss account over their useful economic lives. Internally generated intangible assets are not capitalised.

(o) Foreign currencies

Balance sheet items in foreign currencies are translated into Sterling at closing rates of exchange at the balance sheet date. However, if amounts receivable and payable in foreign currencies are covered by a forward contract, the contract rate of exchange is used for translation. Profit and loss accounts and cash flows of overseas subsidiary undertakings are translated into Sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation of opening net assets and profit and loss accounts at closing rates of exchange are dealt with as movements on reserves. All other exchange differences are charged to the profit and loss account.

The exchange rates used in respect of principal currencies are:

	1999	1998
US Dollar: average for year	***1.62***	1.66
US Dollar: year end	***1.61***	1.66
Australian Dollar: average for year/period	***2.51***	2.71
Australian Dollar: year end	***2.46***	2.71
Euro: average for the year	***1.52***	1.49
Euro: year end	***1.61***	1.42

2 Geographical analysis

Turnover, operating profit and net assets may be analysed by geographical segment as follows:

	1999 Continuing operations Total £000	1998 Continuing operations Total £000
Turnover		
United Kingdom	***82,301***	67,674
The Americas	***107,410***	98,563
Continental Europe and overseas	***104,382***	88,361
Australia	***20,806***	12,256
	314,899	266,854
Operating profit		
United Kingdom	***2,934***	3,492
The Americas	***12,042***	9,716
Continental Europe and overseas	***5,503***	4,056
Australia	***705***	896
Unallocated central costs	***(1,798)***	(1,117)
	19,386	17,043
Net interest payable	***(345)***	(341)
	19,041	16,702
Net assets		
United Kingdom	***6,138***	4,836
The Americas	***22,857***	22,319
Continental Europe and overseas	***13,352***	15,261
Australia	***4,332***	3,266
	46,679	45,682
Net funds/(debt)	***5,264***	(648)
	51,943	45,034

In the opinion of the directors: (i) the Group does not operate in more than one class of business as defined by SSAP 25; (ii) it is not deemed appropriate to analyse net funds/(debt) and interest thereon by geographical segment, and (iii) turnover by destination is not materially different from turnover by origin.

3 Operating costs

	1999 £000	1998 £000
Change in stocks of finished goods and work in progress	***(126)***	204
Own work capitalised	***(3,143)***	(1,196)
Raw materials and consumables	***73,703***	68,090
Other external and operating charges	***132,437***	100,629
Staff costs	***86,264***	76,191
Depreciation: tangible owned fixed assets	***5,914***	5,670
tangible fixed assets held under finance leases	***450***	249
Amortisation: intangibles	***14***	(26)
	295,513	249,811

Other external and operating charges include:		
Auditors' remuneration: audit fees (Company: £33,000 (1998: £32,000))	***245***	255
fees paid to the auditors and associates for other services	***113***	204
Rental of plant and equipment	***21,841***	19,680
Rental of property	***1,735***	1,240

4 Employees

The aggregate staff costs of the Group were:

	1999 £000	1998 £000
Wages and salaries	***72,583***	63,872
Social security costs	***11,908***	10,935
Other pension costs	***1,773***	1,384
	86,264	76,191

These costs include directors' remuneration. Disclosures on directors' remuneration, including emoluments, shareholdings, pension rights and interests in long term incentive plans required by the Companies Act 1985 and those specified for audit by the London Stock Exchange are on pages 22 to 24 within the Remuneration Report and form part of these financial statements.

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

	1999 Number	1998 Number
United Kingdom	***812***	748
The Americas	***654***	597
Continental Europe and overseas	***1,107***	1,096
Australia	***332***	397
	2,905	2,838

5 Net interest payable

	1999 £000	1998 £000
Interest payable on bank loans and overdrafts	***617***	699
Interest on other loans	***238***	305
Interest payable on finance leases	***108***	154
	963	1,158
Interest receivable	***(618)***	(817)
	345	341

6 Taxation

The taxation charge comprises:

	1999 £000	1998 £000
UK corporation tax at 30.25% (1998: 31%)	***747***	2,938
Double tax relief	***(163)***	(1,912)
Overseas tax	***6,190***	5,179
Deferred tax	***231***	(675)
(Over)/under provisions in respect of prior years	***(256)***	340
	6,749	5,870

7 Dividends paid and proposed

Ordinary dividends on equity shares:

	1999 £000	1998 £000
Interim paid	***1,476***	1,330
Final proposed	***2,952***	2,691
	4,428	4,021

An interim ordinary dividend of 2.6p (1998: foreign income dividend 2.35p) per share was paid on 29 October 1999.

The final proposed ordinary dividend of 5.2p (1998: 4.75p) per share will be paid on 31 May 2000.

8 Earnings per share

Earnings per share is calculated as follows:

	1999 Basic	***1999 Diluted***	1998 Basic	1998 Diluted
Profit after tax and minority interests	***£12,180,000***	***£12,180,000***	£10,478,000	£10,478,000
	No. of shares	***No. of shares***	No. of shares	No. of shares
Weighted average of ordinary shares in issue during the year	***56,664,581***	***56,664,581***	56,359,063	56,359,063
Add: Weighted average of shares under option during the year	–	***257,414***	–	640,937
Add: Weighted average of own shares held	–	***78,005***	–	–
Subtract: Number of shares assumed issued at fair value during the year	–	***(100,676)***	–	(318,129)
Adjusted weighted average ordinary shares in issue	***56,664,581***	***56,899,324***	56,359,063	56,681,871
	pence	***pence***	pence	pence
Earnings per share	***21.5***	***21.4***	18.6	18.5

9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 1999	1,616	(489)	1,127
Additions	100	–	100
At 31 December 1999	***1,716***	***(489)***	***1,227***
Amortisation			
At 1 January 1999	22	(70)	(48)
Charge/(credit) for the year	81	(105)	(24)
At 31 December 1999	***103***	***(175)***	***(72)***
Net book value			
At 31 December 1999	***1,613***	***(314)***	***1,299***
Net book value			
At 31 December 1998	1,594	(419)	1,175

9 Goodwill continued

On 14 November 1999 the Group acquired substantially all the assets of Comtec Worldwide Limited and Comtec (UK) Limited and Bradway Services Limited (collectively referred to as "Comtec") for a cash consideration of £175,000 acquiring fixed assets of £75,000.

On 7 May 1998, the Group acquired Franki Pacific Holdings Pty Ltd and its subsidiaries (Franki), for a net cash consideration of £3,492,000 including related fees of £271,000.

On 27 August 1998, the Group acquired substantially all of the assets and liabilities of Denver Grouting Services Inc (Denver) for a cash consideration of £1,530,000 including related fees of £50,000.

On 26 October 1998, Geotechnical Engineering Contractor Ltd and its subsidiary (Genco) was acquired by the Group for an initial consideration of £2,279,000 including related fees of £119,000 of which £542,000 was paid in January 1999. Depending upon the profit performance of Genco in the period to 31 December 1999 a further deferred purchase consideration of between £174,000 and £696,000 will be payable. The directors' best estimate of the deferred consideration is £174,000.

Positive goodwill on the above acquisitions is being amortised over their estimated economic lives which are considered to be 20 years in each case. Negative goodwill is being amortised over its economic life of four years and eight months.

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

	1999 Total £000	1998 Total £000
Net assets acquired	***75***	6,100
Fair value adjustments	-	699
Fair value of net assets acquired	***75***	6,799
Minority interests in net assets acquired	-	(451)
Group interests in net assets acquired	***75***	6,348
Positive goodwill/(negative goodwill) arising on investment	***100***	1,127*
Cost of investment	***175***	7,475
Less: deferred purchase consideration	-	(696)
Deferred purchase considerations in respect of prior year acquisitions	***550***	312
Acquisition of subsidiary undertakings per cash flow	***725***	7,091

* Comprises positive goodwill of £1,616,000 and negative goodwill of £489,000.

10 Other intangible assets

Group	Licenses £000
Cost	
At 1 January 1999	354
Additions	38
Exchange differences	(29)
At 31 December 1999	***363***
Amortisation	
At 1 January 1999	23
Charge for the year	38
Exchange differences	(3)
At 31 December 1999	***58***
Net book value	
At 31 December 1999	***305***
Net book value	
At 31 December 1998	331

11 Tangible assets

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
Cost				
At 1 January 1999	16,621	72,473	335	89,429
Exchange differences	(890)	(2,964)	(34)	(3,888)
Additions	357	8,380	124	8,861
Acquired with subsidiary	–	75	–	75
Disposals	–	(2,328)	–	(2,328)
Reclassification	92	218	(310)	–
At 31 December 1999	***16,180***	***75,854***	***115***	***92,149***

11 *Tangible assets* continued

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
Depreciation				
At 1 January 1999	1,930	44,660	–	46,590
Exchange differences	(104)	(2,518)	–	(2,622)
Charge for the year	267	6,097	–	6,364
Disposals	–	(1,871)	–	(1,871)
At 31 December 1999	***2,093***	***46,368***	–	***48,461***
Net book value				
At 31 December 1999	***14,087***	***29,486***	***115***	***43,688***
Net book value				
At 31 December 1998	14,691	27,813	335	42,839

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

	1999 £000	1998 £000
Land and buildings	***591***	702
Plant, machinery and vehicles	***1,748***	2,153
	2,339	2,855

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

	1999 Cost £000	***1999 Accumulated depreciation £000***	***1999 NBV £000***	1998 NBV £000
Freehold land	***4,652***	–	***4,652***	4,747
Freehold buildings	***10,271***	***(1,432)***	***8,839***	9,209
Short leases	***1,257***	***(661)***	***596***	735
	16,180	***(2,093)***	***14,087***	14,691

12 Investments

Cost	***1999 Group £000***	1998 Group £000	***1999 Company £000***	1998 Company £000
Own shares	***535***	–	***535***	–
Less: amounts owed to beneficiaries of Employee Benefit Trust	***(535)***	–	***(535)***	–
Subsidiary undertakings	–	–	***19,515***	19,515
	–	–	***19,515***	19,515

The market value of the investment in 208,000 own shares at 31 December 1999 was £562,640. As noted on page 23 this investment relates to purchases under the Keller Group plc Deferred Annual Bonus Scheme to cover anticipated awards by the Keller Group plc Employee Benefit Trust.

The Company's principal subsidiary undertakings at 31 December 1999 were as follows. A full list of subsidiaries will be annexed to the Company's next annual return.

Subsidiary undertaking	Country of incorporation
Keller Limited*	Great Britain
Keller Finance Limited	Great Britain
Keller Holdings Limited*†	Great Britain
Makers Holdings Limited*†	Great Britain
Makers UK Limited	Great Britain
Martech Services Limited	Great Britain
Keller Holding GmbH†	Germany
Keller Grundbau GmbH	Germany
Keller Fondations Spéciales SARL	France
Keller Grundbau Ges.mbH	Austria
Keller Specialne zakladanie, spol. s r.o.	Slovakia
Keller Specialni zakladani, spol. s r.o.	Czech Republic
Keller Grundbau Mélyépítö Kft	Hungary
Keller Polska Sp. z o.o.	Poland
Keller Fondazioni S.r.l.	Italy
Keller Foundations (South East Asia) Pte Ltd	Singapore

Subsidiary undertaking	Country of incorporation
Keller (Malaysia) Sdn. Bhd.	Malaysia
Keller Turki Company Ltd	Saudi Arabia
Geotechnical Engineering Contractor Ltd	Egypt
Construction Requirement Company Ltd	Egypt
Keller Foundations Inc†	USA
Hayward Barker Inc	USA
Keller Environmental Inc	USA
Case Foundation Company	USA
Case Atlantic Company	USA
Keller Cimentaciones Cia Ltda	Colombia
Keller Cimentaciones de Latinoamerica, S.A. de C.V.	Mexico
Keller Australia Pty Ltd†	Australia
Franki Pacific Holdings Pty Ltd†	Australia
Frankipile Australia Pty Ltd	Australia
P. T. Frankipile Indonesia	Indonesia

Each of the above subsidiary undertakings is directly or indirectly wholly owned by the Company apart from Keller Australia Pty Ltd which is owned 83.3% by Keller Holdings Ltd, Keller Turki Company Limited which is owned 65% by Keller Grundbau GmbH and P. T. Frankipile Indonesia which is owned 60% by Franki Pacific Holdings Pty Ltd. Shareholdings marked * are held by the Company. All other shareholdings are held by intermediate subsidiary undertakings. All companies, with the exception of those marked†, being holding companies, are engaged in the principal activities of the Group, as defined in the directors' report.

13 Stocks

Group	*1999 £000*	1998 £000
Raw materials and consumables	***4,984***	4,902
Work in progress	***383***	287
Finished goods	***782***	740
	6,149	5,929

14 Debtors

	1999 Group £000	1998 Group £000	*1999 Company £000*	1998 Company £000
Trade debtors	***66,661***	59,280	**–**	–
Amounts recoverable on contracts	***1,786***	2,871	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	***20,874***	17,732
Other debtors	***3,375***	3,825	***406***	91
Prepayments	***1,578***	1,322	***23***	11
	73,400	67,298	***21,303***	17,834
Included in the above are amounts falling due after more than one year in respect of:				
Amounts owed by subsidiary undertakings	**–**	–	***13,418***	13,209
Other debtors	***1,575***	1,597	***20***	43
	1,575	1,597	***13,438***	13,252

15 Creditors: amounts falling due within one year

	1999 Group £000	1998 Group £000	*1999 Company £000*	1998 Company £000
Overdrafts	***244***	115	**–**	–
Bank loans	***1,280***	2,070	**–**	–
Loan notes	***639***	435	***639***	435
Trade creditors	***33,392***	26,198	***460***	282
Obligations under finance leases	***270***	483	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	***1,646***	288
Other creditors	***20,896***	20,942	***223***	555
Accruals	***4,653***	4,618	***66***	129
Corporation and withholding taxes payable	***3,156***	4,346	**–**	–
Advance corporation tax payable	**–**	333	**–**	–
Other taxes and social security payable	***5,186***	4,740	**–**	–
Dividends payable	***2,952***	2,691	***2,952***	2,691
	72,668	66,971	***5,986***	4,380

16 Creditors: amounts falling due after more than one year

	1999 Group £000	1998 Group £000	***1999 Company £000***	1998 Company £000
Bank loans	***5,139***	6,855	–	–
Loan notes	***2,557***	2,612	***2,557***	2,612
Obligations under finance leases	***1,572***	2,209	–	–
Other creditors	***2,183***	2,064	***882***	857
	11,451	13,740	***3,439***	3,469
Bank loans and loan notes are repayable as follows:				
Between one and two years	***2,998***	1,968	***1,278***	871
Between two and five years	***4,698***	7,499	***1,279***	1,741
	7,696	9,467	***2,557***	2,612
Obligations under finance leases are repayable as follows:				
Between one and two years	***263***	447	–	–
Between two and five years	***836***	985	–	–
In five years or more	***473***	777	–	–
	1,572	2,209	–	–

The bank loans are repayable by half-yearly instalments with the final instalment due in April 2003. Interest is charged at a premium over LIBOR and at 31 December 1999 the weighted average interest rate was 6.4% (1998: 5.8%). The bank loans are denominated in currencies other than Sterling as follows:

Group	***1999 £000***	1998 £000
Loans denominated in Euros	***646***	1,509
Loans denominated in US Dollars	***2,190***	4,477
Loans denominated in Australian Dollars	***3,583***	2,939
	6,419	8,925

There are no fixed terms for the repayment of the loan notes. Loan note holders have the right to require the Company to repay up to the whole of their holding on any date between 15 March to 14 April and 15 September to 14 October in any year up to the final repayment date of 25 November 2006.

The repayment of the outstanding loan notes has been assessed according to the earliest period during which loan note holders can demand repayment, namely 15 March to 14 April 2000. During this period, bank loans may be drawn against a bank facility which has been arranged specifically for this purpose. This bank facility is currently being used to guarantee the loan notes and a minimum deferred purchase consideration. Any bank loans drawn against this facility are repayable by half-yearly instalments with the final instalment due in November 2002.

Interest on the loan notes is charged at a rate for six month Sterling deposits and at 31 December 1999 this interest rate was 6% (1998: 7.2%).

17 Provisions for liabilities and charges

Group	1999 £000	1998 £000
Deferred taxation	74	–
Retirement provisions	5,303	5,632
Long service leave provisions	367	326
	5,744	5,958
Deferred taxation		
At 1 January	–	642
Exchange differences	(52)	33
Transfer to current tax	(105)	–
Profit and loss account	231	(675)
At 31 December	74	–

The total potential net deferred taxation liability is as follows:

	1999 Amount provided £000	1999 Potential liability £000	1998 Amount provided £000	1998 Potential liability £000
Accelerated capital allowances	–	3,835	–	3,481
Other timing differences	74	(2,969)	–	(2,790)
	74	866	–	691

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

	1999 £000	1998 £000
Retirement provisions (see note 29)		
At 1 January	5,632	5,100
Exchange differences	(678)	359
Arising during the year	355	173
Utilised during the year	(6)	–
At 31 December	5,303	5,632
Long service leave provisions		
At 1 January	326	–
Acquired with subsidiary undertaking	–	353
Exchange differences	33	(16)
Arising during the year	16	(11)
Utilised during the year	(8)	–
At 31 December	367	326

Employees in Australia are entitled to long service leave after ten years of service on the basis of 8⅔ weeks for every ten years of service. The provision has been calculated at current wage rates depending on length of service.

18 Treasury information

Interest rate and currency profile:

The profile of the Group's financial assets and financial liabilities was as follows:

	1999 AUD	***1999 USD***	***1999 Euro***	***1999 Sterling***	***1999 Total***
Weighted average fixed debt interest rate	–	***6.37%***	–	–	–
Weighted average fixed debt period (years)	–	***5.3***	–	–	–
	£000	***£000***	***£000***	***£000***	***£000***
Fixed rate financial liabilities	–	***(2,552)***	***(359)***	***(370)***	***(3,281)***
Floating rate financial liabilities	***(3,583)***	***(752)***	***(883)***	***(3,202)***	***(8,420)***
Financial assets	***300***	***1,727***	***7,278***	***7,660***	***16,965***
Net financial assets/(liabilities)	***(3,283)***	***(1,577)***	***6,036***	***4,088***	***5,264***

	1998 AUD	1998 USD	1998 Euro	1998 Sterling	1998 Total
Weighted average fixed debt interest rate	–	6.25%	–	–	–
Weighted average fixed debt period (years)	–	5.2	–	–	–
	£000	£000	£000	£000	£000
Fixed rate financial liabilities	(497)	(4,741)	(447)	(505)	(6,190)
Floating rate financial liabilities	(2,939)	(972)	(1,652)	(3,026)	(8,589)
Financial assets	745	2,299	3,723	7,364	14,131
Net financial assets/(liabilities)	(2,691)	(3,414)	1,622	3,833	(648)

The fixed rate financial liabilities comprise a bank loan and finance leases.

The floating rate financial liabilities comprise loan notes, bank loans and overdrafts, which bear interest based on LIBOR or local country equivalent.

Financial assets comprise cash at bank and in hand. Financial assets and financial liabilities exclude short-term debtors and creditors.

The fair values of the financial assets and liabilities are the same as their carrying values.

The Group has the following unutilised committed banking facilities:

	1999 £000	1998 £000
Expiring within one year	–	–
Expiring between one and two years	***8,000***	6,300

19 Share capital

Company	1999 £000	1998 £000
Authorised		
Equity share capital: 80,000,000 ordinary shares of 10p each (1998: 80,000,000)	***8,000***	8,000
Allotted, called up and fully paid		
Equity share capital: 56,775,050 ordinary shares of 10p each (1998: 56,644,850)	***5,677***	5,664

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to certain executives. On 26 April 1998 these options became exercisable at any time up to 26 April 2006. At 1 January 1999 options under this scheme were outstanding over 355,150 ordinary shares at 102p each. 130,200 options were exercised during the year.

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 1999	14,388	7,629	16,404	38,421
Retained profit for the financial year	–	–	7,752	7,752
Exchange differences net of taxation	–	–	(926)	(926)
Issue of new shares	120	–	–	120
At 31 December 1999	***14,508***	***7,629***	***23,230***	***45,367***
Company				
At 1 January 1999	14,388	7,629	6,752	28,769
Retained loss for the financial year	–	–	(366)	(366)
Issue of new shares	120	–	–	120
At 31 December 1999	***14,508***	***7,629***	***6,386***	***28,523***

At 31 December 1999 the cumulative amount of positive goodwill charged to reserves in previous years is £11,998,000 (1998: £11,998,000) and the cumulative amount of negative goodwill credited to reserves in previous years is £407,000 (1998: £407,000). There have been no disposals of any of the businesses to which this cumulative positive goodwill or negative goodwill relates.

21 Reconciliation of movements in shareholders' funds

	1999 Group £000	1998 Group £000	1999 Company £000	1998 Company £000
Profit for the financial year	**12,180**	10,478	**4,062**	7,224
Dividends	**(4,428)**	(4,021)	**(4,428)**	(4,021)
Exchange differences net of taxation	**(926)**	1,231	**–**	–
Issue of new shares	**133**	658	**133**	658
Net movements in shareholders' funds	**6,959**	8,346	**(233)**	3,861
Shareholders' funds at 1 January	**44,085**	35,739	**34,433**	30,572
Shareholders' funds at 31 December	**51,044**	44,085	**34,200**	34,433

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

Group	1999 £000	1998 £000
Operating profit	**19,386**	17,043
Depreciation charge	**6,364**	5,919
Amortisation of intangibles	**14**	(26)
(Profit)/loss on sale of fixed assets	**(164)**	331
Movement in retirement/long service leave provisions	**357**	162
Increase in stocks	**(456)**	(72)
Increase in debtors	**(8,581)**	(717)
Increase in creditors	**10,482**	36
Net cash inflow from operating activities	**27,402**	22,676

23 Reconciliation of net cash flow to movement in net debt

Group	1999 £000	1998 £000
Increase in cash in the year	**3,628**	4,349
Cash flow from debt and lease financing	**3,505**	(3,410)
Cash flow from (increase)/decrease in short term bank deposits	**(642)**	1,428
Change in net debt resulting from cash flows	**6,491**	2,367
Net debt acquired with subsidiary undertaking	**–**	(509)
New finance leases	**–**	(692)
Exchange differences	**(579)**	155
Movement in net debt in the year	**5,912**	1,321
Net debt at 1 January	**(648)**	(1,969)
Net funds/(debt) at 31 December	**5,264**	(648)

24 Analysis of changes in net debt

Group	At 1 January 1999 £000	Cash flow £000	Other non-cash changes £000	Exchange differences £000	***At 31 December 1999 £000***
Cash in hand	7,193	3,762	–	(62)	***10,893***
Overdrafts	(115)	(134)	–	5	***(244)***
	7,078	3,628	–	(57)	***10,649***
Short term bank deposits	6,938	(642)	–	(224)	***6,072***
Bank loans due within one year	(2,070)	820	(31)	23	***(1,280)***
Bank loans due after one year	(6,855)	2,495	(467)	(334)	***(5,139)***
Loan notes due within one year	(435)	(149)	(55)	–	***(639)***
Loan notes due after one year	(2,612)	–	55	–	***(2,557)***
Finance leases	(2,692)	339	498	13	***(1,842)***
	(648)	6,491	–	(579)	***5,264***

25 Cash at bank and in hand

Group	***1999 £000***	1998 £000
Cash in hand	***10,893***	7,193
Short term bank deposits	***6,072***	6,938
	16,965	14,131

Cash in hand includes bank deposits repayable on demand. Short term bank deposits are those which require more than 24 hours' notice of withdrawal.

26 Related party transactions

In the ordinary course of business the Group has undertaken a number of transactions with certain of its joint arrangements including the transfer of and charging for staff and the rental of plant and equipment. The following is a summary of these transactions:

Group	***1999 £000***	1998 £000
Share of turnover from the joint arrangements	***9,379***	7,008
Net joint arrangement balances at 1 January	***1,479***	1,191
Share of profit from the joint arrangements before overhead allocation	***2,539***	1,121
Net distributions from the joint arrangements	***(3,377)***	(885)
Exchange differences	***(56)***	52
Net joint arrangement balances at 31 December	***585***	1,479
Joint arrangement debtor balances at 31 December	***700***	1,540
Joint arrangement creditor balances at 31 December	***(115)***	(61)

27 Commitments

(a) Capital commitments for which no provision has been made in these accounts are as follows:

	1999 £000	1998 £000
Contracted for	***7***	22

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

	1999 Land and buildings £000	1999 Plant, machinery and vehicles £000	1999 Total £000	1998 Total £000
Expiring within one year	***251***	***419***	***670***	527
Expiring between two and five years inclusive	***748***	***1,618***	***2,366***	2,609
Expiring in over five years	***35***	***8***	***43***	4
	1,034	***2,045***	***3,079***	3,140

28 Contingent liabilities

The Group has entered into bonds in the normal course of business relating to contract tenders, advance payments, contract performance and the release of retentions.

The Company and certain of its subsidiary undertakings have entered into a number of guarantees, the effects of which are to guarantee or cross guarantee certain bank borrowings.

There are claims arising in the normal course of trading, which involve or may involve litigation. All amounts which the directors consider will become payable on account of such claims have been fully accrued in these accounts.

At 31 December 1999 the Group had discounted bills of exchange and standby letters of credit outstanding of £833,813 (1998: £777,000).

29 Pensions

The Group operates several pension schemes in the UK and overseas.

During the year in the UK, the Group operated defined benefit schemes based upon final salary. The assets of the schemes are held separately from the Group in trustee administered funds which are managed by investment managers. A full actuarial valuation of the schemes was carried out by an independent professionally qualified actuary as at 5 April 1999. At this date the market values of the assets of the schemes were £8,210,000 and £5,260,000 and the actuarial valuations showed funding levels of 94% and 101%. The next actuarial valuation will be carried out as at 5 April 2002.

The actuarial method of assessing the funding rates was that of the projected unit credit method. The principal actuarial assumptions used were: investment returns of 7.71% before retirement and 4.71% after retirement, salary increases of 4.18% and pension increases of 2.93%.

The total UK pension charge for the year was £392,000 (1998: £347,000).

As of 5 April 1999 the above schemes were merged to become the Keller Group Pension Scheme. This scheme is now closed for new employees. At 6 April 1999, a defined contribution scheme was established. There were no contributions outstanding in respect of the defined contribution scheme at 31 December 1999.

In Germany and Austria, for employees who joined the Group prior to 1 January 1998, the Group retains funds within the business to provide for retirement obligations and at 31 December 1999 the liability was £5,303,000 (1998: £5,632,000). The total German and Austrian pension charge for the year was £613,000 (1998: £390,000) based on generally accepted local pension principles. A defined contribution scheme is in operation for those employees who joined the Group after 1 January 1998.

The Group operates a defined contribution scheme for employees in the USA, where the Group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total USA pension charge for the year was £544,000 (1998: £411,000).

In Australia there is a defined contribution scheme where the Group is required to ensure that a prescribed level of superannuation support of an employee's notional base earnings is made. This prescribed level of support was increased from 6% to 7% from 1 July 1998. The total Australian pension charge for the year was £224,000 (1998: £236,000).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Keller Group plc will be held at the offices of Dresdner Kleinwort Benson, 20 Fenchurch Street, London EC3P 3DB on Thursday 11 May 2000 at 11am for the transaction of the following business:

Ordinary business

(1) To receive the report of the directors and the statement of accounts for the year ended 31 December 1999 together with the report of the auditors thereon.

(2) To declare a final dividend of 5.2p per ordinary share, such dividend to be paid on 31 May 2000 to members on the register at the close of business on 8 May 2000.

(3) To appoint Mr J R Atkinson who has been appointed an executive director since the date of the previous Annual General Meeting.

(4) To appoint Dr K Bond who has been appointed a non-executive director since the date of the previous Annual General Meeting.

(5) To appoint Mr K F Payne who has been appointed a non-executive director since the date of the previous Annual General Meeting.

(6) To re-appoint Dr H Peipers as a director who retires by rotation and being eligible offers himself for re-election.

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

Special business

To consider and, if thought fit, to pass the following resolutions of which resolutions numbered 8 and 9 will be proposed as ordinary resolutions and resolutions numbered 10 and 11 will be proposed as special resolutions:

(8) THAT the directors be and are hereby generally authorised for the purposes and subject to the provisions of Article 158 of the Company's Articles of Association to offer the holders of ordinary shares the right to elect to receive ordinary shares, credited as fully-paid, instead of cash in respect of all or part of such dividend or dividends as may be declared by the Company or by the directors and that the authority of the directors to make such offers shall be exercisable during the period commencing on the date of the passing of this resolution and expiring on the date of the Annual General Meeting of the Company to be held in 2001.

(9) THAT:

(i) The directors be and are hereby generally and unconditionally authorised for the purposes of Section 80 of the Act to allot relevant securities (as defined in Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £1,892,502 during the period commencing on the date of the passing of this resolution and expiring on the date of the next Annual General Meeting of the Company provided that the Company may make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities of the Company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired, and

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

(10) THAT, subject to the passing of resolution 9 above, the directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94(2) of the Act) of the Company within the terms of the authority set out in resolution 9 above as if Section 89(1) of the Act did not apply to such allotment provided that such power shall be limited to:

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

(ii) the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal value of £283,875

and shall expire on the earlier of the date falling 15 months after the passing of this resolution and the date of the next Annual General Meeting of the Company save that the directors may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired.

(11) THAT the Company be and is hereby granted general and unconditional authority (pursuant to Section 166 of the Act) to make market purchases (as defined in Section 163 of the Act) of up to in aggregate 10% of its own ordinary shares of 10p each in the capital of the Company ("ordinary shares") provided that:

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

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

(iii) the authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution, or 11 May 2001 (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of its own shares which would or may require to be completed or executed wholly or partly after the expiration of this authority as if the said authority had not expired.

By order of the board

J R Atkinson	Registered office:
Secretary	Aztec House, 397-405 Archway Road
8 March 2000	London N6 4EY

Notes

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

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

(3) Copies of all the directors' service contracts or memoranda of the terms thereof will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

FINANCIAL RECORD

	1995 £000	1996 £000	1997 £000	1998 £000	***1999 £000***
Consolidated profit and loss account					
Turnover	224,953*	239,009*	244,645*	266,854	***314,899***
Operating profit	11,543	12,754	14,264	17,043	***19,386***
Net interest payable	(389)	(231)	(440)	(341)	***(345)***
Profit on ordinary activities before taxation	11,154	12,523	13,824	16,702	***19,041***
Taxation	(4,364)	(4,468)	(4,813)	(5,870)	***(6,749)***
Profit on ordinary activities after taxation	6,790	8,055	9,011	10,832	***12,292***
Equity minority interests	(213)	(249)	(86)	(354)	***(112)***
Profit for the financial year	6,577	7,806	8,925	10,478	***12,180***
Dividends paid and proposed	(2,968)	(3,276)	(3,612)	(4,021)	***(4,428)***
Retained profit for the financial year	3,609	4,530	5,313	6,457	***7,752***
Consolidated balance sheet					
Intangible fixed assets	–	–	–	1,506	***1,604***
Tangible fixed assets	37,336	34,785	36,195	42,839	***43,688***
Other net operating assets	11,697	12,133	13,937	14,756	***14,081***
Net (debt)/funds	(289)	(2,235)	(1,969)	(648)	***5,264***
Other liabilities	(10,015)	(12,129)	(12,300)	(13,419)	***(12,694)***
Net assets	38,729	32,554	35,863	45,034	***51,943***
Equity minority interests	(342)	(211)	(124)	(949)	***(899)***
Equity shareholders' funds	38,387	32,343	35,739	44,085	***51,044***
Gearing	1%	7%	5%	1%	***0%***
Earnings per share	11.7p	13.9p	15.9p	18.6p	***21.5p***
Diluted earnings per share	11.7p	13.9p	15.8p	18.5p	***21.4p***
Dividends per share	5.3p	5.85p	6.45p	7.1p	***7.8p***

* Restated for the effects of FRS 9.

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