Keller Group plc Report and Accounts 2000

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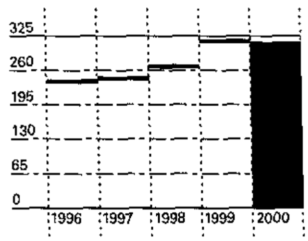
Keller Group plc
Report and Accounts 2000
Global Construction Services

Contents

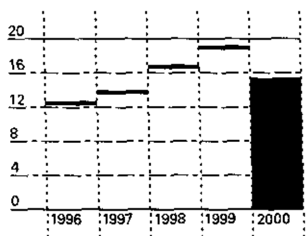
Keller, the global construction services Group, is renowned for providing innovative and cost-effective solutions to ground engineering problems and refurbishment projects. Keller has unrivalled coverage in Europe, North America and Australia where its services are used in infrastructure, building, civil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

Financial highlights

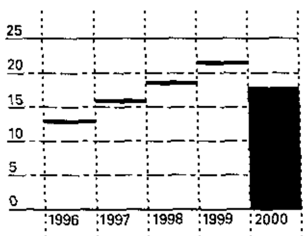
Turnover (£313m)



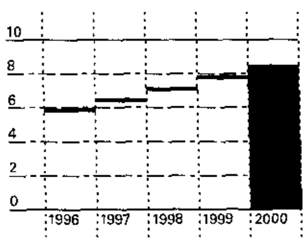
Profit before tax (£15.4m)



Earnings per share (17.9p)



Dividend per share (8.5p)



Chairman's statement

Group sales were £313m (1999: £314.9m) with an operating profit, before restructuring costs and amortisation of goodwill, of £17.7m (1999: £19.4m) producing a basic earnings per share of 17.9p (1999: 21.5p). This is the first drop in sales and profit since flotation but is nevertheless a very creditable result in a challenging year.

Keller remains committed to a strategy of strengthening its position as an international market leader in foundation services and in pursuit of this aim, made five acquisitions during the year. These have all performed well and are already enhancing the Group's market coverage and product range. We are also committed to continuing to expand our range of specialist services outside the foundations area. This part of Keller Group's operations already contributes 15% of Group operating profit and there are good prospects for the continued growth of this part of our business.

Given the underlying strength of Keller, the benefits that will be derived from our expansion into new services and from the restructuring of our core business, the board is recommending a continuation of our progressive dividend policy with a final dividend of 5.65p per share. This brings the total dividend for the year to 8.5p (1999: 7.8p) an increase of 9% over the previous year. The final dividend will be paid on 31 May 2001 to shareholders on the register at the close of business on 4 May 2001.

In reviewing the Group's performance in 2000, a substantial part of the shortfall came from costs incurred in restructuring operations in Europe and Australia, while the other main component was unexpectedly sluggish sales in the core business well into the second half of the year. I am pleased to be able to report, therefore, that trading improved in the closing quarter, particularly in the United States.

In January this year, Keller announced the retirement of Klaus Kirsch from the board. Klaus joined Keller in 1969 and has been responsible for Group operations in Continental Europe and Overseas since 1985 and a main board director since 1990. Klaus Kirsch has made an outstanding contribution to the development of Keller Group and the board wish him well in his retirement.

Following a strategic review last year, a new executive committee, chaired by the chief executive, has been formed to focus on current operations as well as the implementation of strategies within the main operating divisions. This will enable the board to concentrate on the major strategic opportunities available to the Group.

Keller is a people business and we are committed to providing training and opportunities to allow our staff to achieve their full potential. We rely on the commitment and dedication of our workforce and I would like to take this opportunity to thank all of them for their hard work in 2000.

In closing, I am pleased to be able to report to shareholders that the recovery I referred to above has been sustained and Keller enters 2001 with an order book 45% ahead of the same period last year, on a like for like basis. This fact, plus a good performance from the businesses we acquired during the year, gives us the confidence to anticipate a much improved result in 2001.

Dr J M West Chairman
7 March 2001

Operating review

Keller's broad geographic spread with operations in over 30 countries means that, in any given year, we face a wide variety of market conditions. The year 2000 was no exception with market economics ranging from depression in Indonesia to growth in countries such as France. In our main markets, we were adversely affected by a major slowdown in construction activity in Australia, related to the Olympic Games, while in the United States a series of delayed starts on major projects led to weaker than anticipated results during the summer months. The American position reversed in the fourth quarter with very high sales activity which has continued into the early months of 2001. In the UK, market conditions remain strong in the repair and refurbishment sector in which Makers operates while in the foundations sector, activity continues at levels similar to recent years. Market conditions in Europe were mixed with the continuing slowdown in Germany being offset by growth in France, Italy and Poland.

In furtherance of our stated strategy, the Group completed several acquisitions during the year which will enhance both our regional presence and our product portfolio. Most notable of these acquisitions was the purchase of a 50% interest in the Swedish soil mixing contractor, Lime Column Markteknik AB (LCM). This acquisition will give Keller Group access to lime column technology for the stabilisation of very soft soils with applications in the construction of highways and the upgrading of high speed rail tracks. This dry system is well established in Northern Europe and it is our objective to transfer this technology to other regions of the world using Keller's current outlets.

The Americas

As anticipated, operating margins in North America declined from the outstanding level of 1999, however, they remain well above the average attained by the Group. This, combined with an 8% fall in like for like sales, gave rise to a decline in profits for the year.

In Hayward Baker, all regions, with the exception of the Western Region achieved or surpassed budgeted sales and margins. Major projects undertaken during the year included a comprehensive design build foundation package for the upgrading of a power plant in West Virginia to meet current emission standards. Hayward Baker's Northern Region engineers designed and installed in excess of 1,000 high capacity mini piles on a very congested site, avoiding the need for major earthworks, and offering the client considerable savings in both time and money. The success of this project has led to the negotiation of further work on other power plants. In Florida, Hayward Baker provided the ground treatment work to support a major extension to the convention centre in Orlando. This performance based contract incorporated a combination of vibro replacement and compaction grouting to treat the soils to support the new structure. Other major contracts included slope stabilisation work on a famous scenic highway in Glacier National Park in Montana and a cement grout injection contract to prevent leakage of ground water into a sewer tunnel in Niagara Falls, New York. This contract was carried out under a unique "shared risk" concept where Hayward Baker was paid based upon the reduction in volume of ground water entering the tunnel.

In Case Foundation, once again the Western Division produced the best results with a series of caisson contracts for high rise apartment and office structures in and around Chicago. In addition to the strong commercial building market, a major bridge contract for the Illinois Department of Transportation was completed using both bored and driven piling systems. In the Eastern Division, the largest single contract was to provide the foundation support for a major new parking structure at Newark Airport in New Jersey. The Piling Division carried out a large number of small to medium sized jobs with generally good margins supplemented by two large excavation support contracts at the Shedd Aquarium in Chicago and for the Lakefront Busway also in downtown Chicago. Case Atlantic continues to benefit from the infrastructure spend associated with TEA 21 with most of its volume coming from bridge work in Florida, Alabama, Georgia and South Carolina. The largest single project, however, was for foundations to a bridge over the Pascagoula River in Mississippi.

Outside the United States, the largest job undertaken by Hayward Baker was in Korea where contacts through our Denver office provided the opportunity to carry out remedial compaction grouting to control seepage through a dam in the interior of the country. In Mexico several small to medium sized contracts contributed to sales well ahead of last year.

United Kingdom

In the ground engineering business, the piling and ground improvement product lines produced a good result for the year. The turnaround from 1999 was substantial with our continuing work at Canary Wharf being undertaken at better margins while in driven piling we utilised our patented enlarged head pile to produce a foundation system for heavily loaded floor slabs for distribution centres throughout the UK. On the ground improvement side, work consisted of a very large number of small to medium sized contracts and the introduction of our in-house designed and built mini-rig for dry top feed stone columns offered a competitive advantage. One of the larger contracts involved the construction of vibro replacement stone columns for a new warehouse near Stirling.

The Geotechnical Division was affected by the lack of large infrastructure projects, in particular, the delay to commencement of the Channel Tunnel Rail Link and also from the indecision regarding the ownership and management of the London Underground. Major projects included a jet grouted slab at Caister near Great Yarmouth to facilitate construction of a new waste water tank.

This contract was carried out in partnership with Anglian Water and Biwater and was undertaken on a target cost basis. Towards the end of the year, work commenced on a compaction grouting contract in Reading where existing structures have suffered severe settlement due to the existence of voids in the ground.

In Makers, activity was generally strong with the Eastern Region having particularly high sales, while Western Division and Civil Engineering Repair Division (CERD) generated sales in line with budget. Major refurbishment projects dominated the Eastern Region with the five storey Kensal House project at Ladbroke Grove in London providing a strong start to the year. This contract involved a total external refurbishment to the structure plus certain internal renovations including the installation of new kitchens. Further work of a similar nature was secured during the year for two tower blocks in Waltham Forest and this work is now underway with completion towards the end of 2001. CERD had a good year with major term maintenance contracts for Northwest Water and West of Scotland Water providing good continuity of work. The Western Division, while offering a full range of services, specialises in the refurbishment of car parks. During the year it was awarded a contract to investigate the condition of the car parks at Gatwick and Heathrow airports and to report to BAA on necessary repairs. On completion of this investigation, Makers was awarded substantial contracts to carry out major repair and resurfacing works at both airports. The acquisition of Allied Mechanical Services Ltd (AMS) early in the year also provided additional impetus to our repair and maintenance operations and will significantly improve our ability to offer complete packages.

Continental Europe and Overseas

In Euro terms, our Continental Europe and Overseas business performed well during the year with sales and operating profit maintained at last year's strong level. This performance was achieved against the background of generally good market conditions in Continental Europe with the exception of Germany where construction volumes continued to decline with the cancellation of the Maglev project between Hamburg and Berlin being a particularly severe blow. Outside Europe, operating profits were ahead of last year with significant improvement in the Far East markets more than offsetting a shortfall in sales in the Middle East.

Results from Europe were supported by a strong result from Austria where Keller was involved in sophisticated soilcrete jet grouting for a new town hall in Innsbruck and for the restoration of the historic Palais Coburg in Vienna.
The result this year for the first time includes a significant contribution from Italy where two major contracts were undertaken, the first being slope protection using soilcrete and anchors for a new casino at Campione D'Italia, and the second being extensive vibro compaction in alluvial soils for a new paper mill near Turin. Other major contracts included the completion of piling work for Expo 2002 in Switzerland, compensation grouting to secure the railway station in Antwerp during tunnelling and a series of soil improvement contracts for infrastructure projects in the Netherlands, Spain and France.
In Poland, we constructed foundations utilising deep soil mixing for the Papal Institute in Krakow, while in Portugal, we carried out a comprehensive site investigation programme for the new Lisbon international airport. In Germany, Keller installed in excess of 8,000 vibro concrete columns to support a new Opel facility in Russelsheim while in the Ruhr area, we were called upon for a major emergency programme to protect private homes from severe subsidence caused by the collapse of shallow coal workings. Ultra fine cement was used for the stabilisation of the foundation of an existing bridge near Berlin while in the Eastern Länder, work continued on very deep compaction in the Lausitz.

In the Overseas Division, while volume in the Middle East fell below last year, several important jobs were completed including soil improvement by vibro stone columns for the extension of a desalination plant in Abu Dhabi. In Egypt, Genco installed 50 metre deep piles for the Temsa Petrochemical Plant using their proprietory Multiton piles. In addition, Genco installed 1.0 metre diameter bored piles for a bridge foundation at Toshka in the upper Nile and also 800 precast concrete piles driven to 30 metres for a new power plant in Tunisia. In the Far East, activity increased as the year progressed with dry bottom feed stone columns being installed to support a major power plant at Manjung in Malaysia, soil improvement work to stabilise slopes at Putrajaya, the new Malaysian capital and vibro stone columns to provide stable foundations for the new Kerteh to Kuatan railway line. In Singapore, in addition to our continuing work at Changi Airport, we commenced vibro compaction at Jurong where a major reclamation project is underway for the extension of an industrial complex. Towards the end of the year, we also started soil improvement work at the Capco/Tech plant in Taiwan and in an offshore operation, we commenced vibro compaction work for the Indian Navy at Kar, on the west coast of India.

Australia

Results in Franki Pacific Holdings were disappointing with sales down one third and a loss in the business attributable to both a post Olympic slowdown and hesitant investment following the introduction of a goods and services tax. The business has been restructured to reflect lower levels of activity both in Australia and Indonesia. The New South Wales market was particularly depressed following the Olympics, however, bridge foundations for a large road project in northern NSW did bolster the divisions performance. The Victoria office became active in the second half particularly driving precast piles in the Melbourne Docklands redevelopment project which will continue into 2002. In Queensland, Franki completed piling for the Brisbane Airport Rail Link, an elevated light rail system. Indonesia's base mini pile market was active with competition putting pressure on margins, notwithstanding two driven cast in situ pile projects which contributed positively to enable a close to budget result.

Strategy

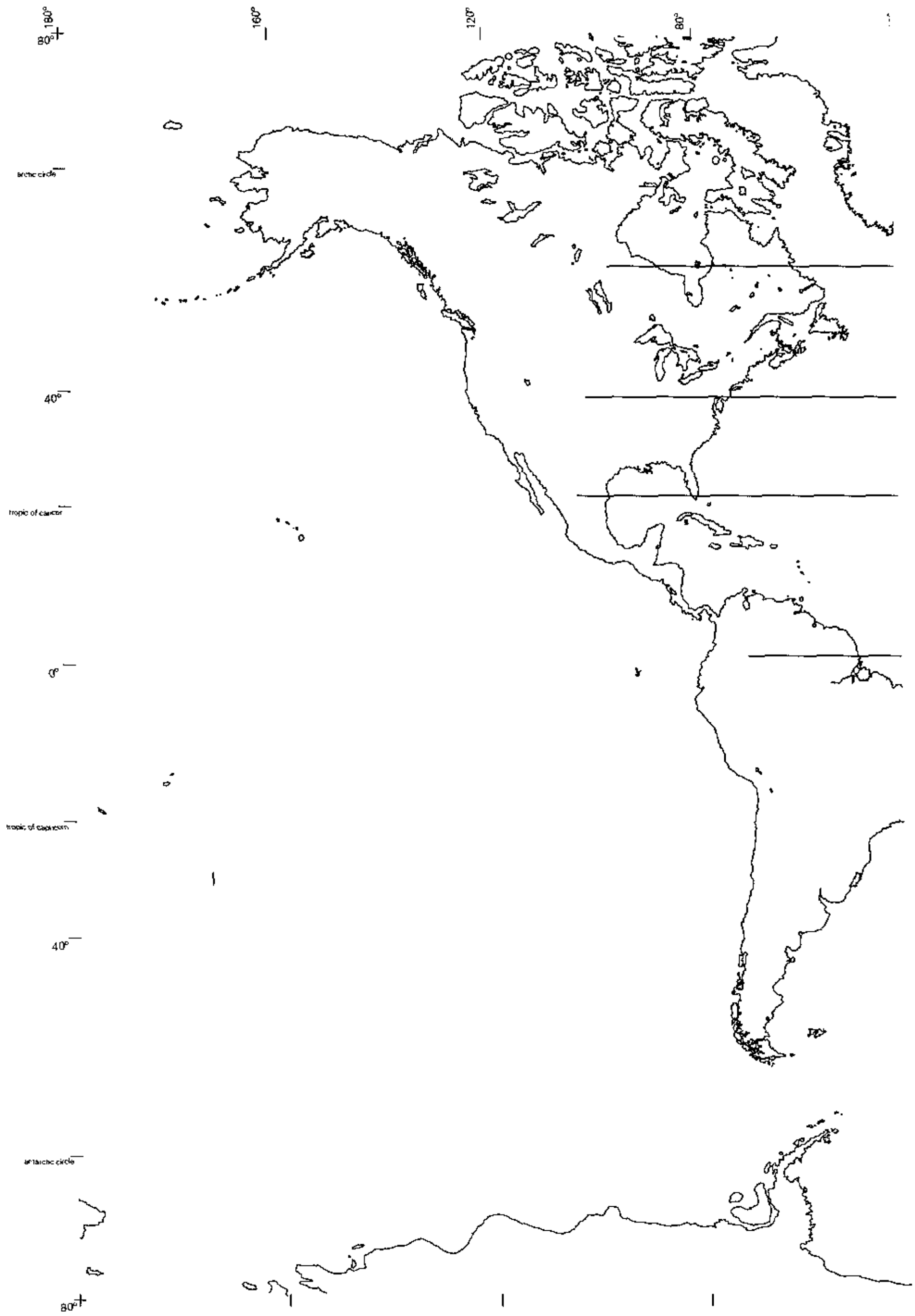
Our fundamental strategy of organic growth in Europe complemented by acquisitions to strengthen geographic coverage, product range and technical excellence remains the basis of future growth in our core foundation business. The organic growth achieved in some parts of Europe during 2000 was negated by reduced volumes in Germany. However, our acquisition in Switzerland and our stake in LCM, together with growth in the recently established businesses in Poland, Italy and Spain should provide opportunities in the future. In North America, our strong performance in the fourth quarter has carried over to the early part of 2001 and with a full year benefit from the regional acquisitions completed in the second half of 2000, we anticipate a return to growth in 2001. With the acquisition of AMS, Makers now accounts for more than 50% of our UK sales and profits and with its enhanced product range, it is now well placed to take advantage of the growing market for facilities management and outsourcing through partnering relationships with local housing authorities and the privatised utilities and transport sectors.

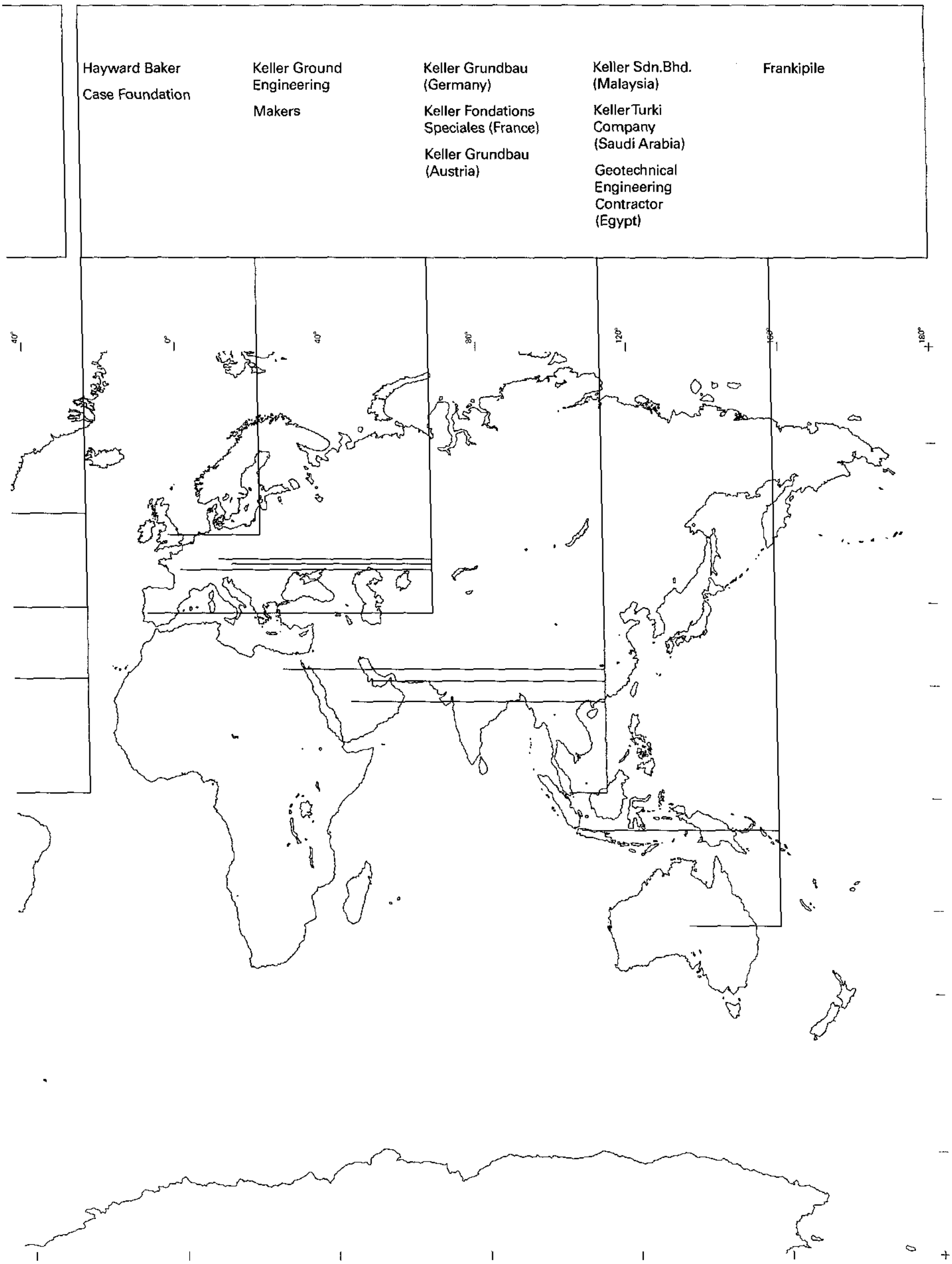
Through Keller's global reach, we continue to seek acquisition opportunities in Europe and the US to broaden the range of technical services Keller offers to world markets. Such acquisitions must be earnings enhancing and offer opportunities for growth.

T Dobson Chief executive
7 March 2001

Keller, a global construction services business

Keller Group plc is a market leader offering specialist ground engineering and refurbishment services to the construction industry. Keller provides a wide range of products designed to meet the challenges and opportunities provided by the increasing worldwide trend towards urban renewal and infrastructure developments. Keller is a public company listed on the London Stock Exchange, and derives 70% of its turnover from outside the UK, principally in North America and Continental Europe.




Hayward Baker
Case Foundation
Keller Ground Engineering
Makers
Keller Grundbau (Germany)
Keller Fondations Speciales (France)
Keller Grundbau (Austria)
Keller Sdn.Bhd. (Malaysia)
Keller Turki Company (Saudi Arabia)
Geotechnical Engineering Contractor (Egypt)
Frankipile

Americas
Hayward Baker

Keller has been operating in the United States for many years, where it trades as Hayward Baker and Case Foundation from bases throughout the United States, Canada and Mexico. Keller offers a wide range of specialist geotechnical systems to all sectors of the American construction market.

Hayward Baker, the market leader in specialist ground engineering services, offers a wide range of products. Its Ground Modification systems have been developed to provide solutions to a wide range of problems, from mitigating the effects of earthquakes to slope stabilisation and settlement control for all forms of development.

Keller's presence in the US market continues to grow with its regional spread being further strengthened by the recent acquisition of geotechnical specialists, Foundation Services Inc (FSI) in North Carolina and The Concrete Doctor Inc (TCDI) in Illinois.

1 Jet Grouting, South Station, Boston.
2 Stone columns, Amphib Base, San Diego.

Case Foundation has been serving the US market for more than 50 years. Based in Chicago, it is a leading specialist heavy foundation contractor and is responsible for installing the large diameter caissons used to support some of America's tallest structures.

Americas

Case Foundation

1 Caissons to Museum Place, Chicago. 2 Retention System, Shedd Aquarium, Chicago. 3 Piling to new Lakefront Busway, Chicago.

United Kingdom
Keller Ground Engineering

Keller Ground Engineering is one of the UK's leading specialist ground engineering contractors providing foundation engineering services that suit many of today's urban renewal, brownfield and infrastructure projects. It also offers specialist geotechnical solutions to the rail industry and environmental markets. Keller has installed foundation support, ground water control and underpinning solutions to some of the UK's most notable structures. With the recent acquisition of Comtec, Keller has extended the selection of services offered to clients to include the construction of reinforced soil retaining walls.

1 Jet Grouting, British Museum, London. 2 Comtec Retaining Wall, London. 3 Bored Piling, Tower Bridge embankment, London.

Makers

1 External refurbishment, Waltham Forest, London. 2 Bridge repairs A34, Abingdon.

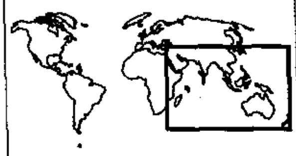
Makers, a wholly owned Keller subsidiary, offers specialist structural repair, maintenance and refurbishment services to the UK market. The completed project list includes most types of civil engineering and building structures from multistorey housing and car parks to tunnels and bridges. Makers specialises in state-of-the-art cathodic concrete repair systems whilst also providing traditional skills such as stone masonry essential for the refurbishment of heritage structures. Keller's recent acquisition of AMS adds an air conditioning and building services capability to Makers, enabling a fuller package to be offered to its customers.

Continental Europe

Keller offers unrivalled coverage of Continental European markets. With well established operating companies in Germany, France, Portugal and Austria and rapidly growing national businesses in Poland, Spain, Italy, Hungary and the Czech Republic, Keller provides a truly pan-European service. These services have recently been extended to Sweden and Switzerland through the acquisition of two local companies.

1 Anchored Soilcrete wall for new casino Campione D'Italia, Italy **2** Grout injection to bridge foundation Berlin, Germany **3** Soilfrac Compensation Grouting, central rail station Antwerp, Belgium.

Rest of the world



1 Retaining wall repair, Farm Cove, Sydney. 2 Vibro compaction, Jurong Island, Singapore. 3 Stone columns, Malampaja, The Philippines.

Keller has been successfully working in the Middle East for over 40 years through its nationally run operations in Saudi Arabia, Bahrain and the United Arab Emirates. The acquisition of Egypt's leading foundation specialist Genco, has given Keller a strong presence in the growing Egyptian market. The aggressive ground conditions and climate characteristics throughout the Middle East exact special demands on foundation contractors. Keller's ground improvement and piling services have been designed to suit the local conditions and are used to provide foundation support for a wide range of petrochemical, commercial, residential and industrial projects.

Keller's Far East operations are centred in Malaysia from where Keller offers a wide range of ground improvement and geotechnical services. With local presence in Singapore, The Philippines and Taiwan, Keller has operated in the area for over 30 years, during which time it has carried out contracts throughout the region, providing foundation support and ground water control on a diverse range of projects from new airports to infrastructure, power plants and dams.

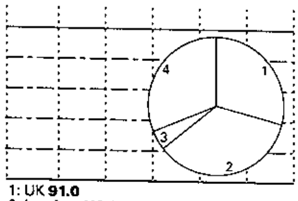
In Australia, Keller's subsidiary Frankipile, is widely regarded as the continent's foremost foundation specialist. It offers its clients not only a market leading range of piling systems, but also advanced ground improvement and geotechnical engineering technologies. Keller has regional offices located throughout Australia and Indonesia. Franki is involved in work on all forms of civil engineering and construction projects and has been responsible for carrying out foundation engineering contracts for many of the country's landmark structures including Stadium Australia, used as the venue for the 2000 Olympics.

Financial review

As was indicated in our trading statement made in mid November, both sales and operating profit for 2000 were lower than last year primarily as a result of delayed starts to contracts in the US and restructuring costs taken against operating profit. Turnover fell by £1.9m to £313m and operating profit before restructuring costs and goodwill amortisation reduced by 9% to £17.7m. Our US business reported sales of £110.1m and operating profit before amortisation of goodwill of £9.9m which, although down on the previous year, showed an operating margin of 9%, still the best achievement in the Group. Activity in Franki, our Australian business, was weak in 2000 as a result of the slowdown in the Australian construction market, with sales falling by nearly one third. The Continental Europe and Overseas operations had a good year and, at constant exchange rates, operating profit before restructuring costs remained level on slightly increased sales giving an operating margin of 5.2%. The UK operations increased sales by 5% and operating profit before restructuring costs and goodwill amortisation by 23% excluding the benefit of acquisitions in the year.

In total, five bolt-on acquisitions were made in the year which added some £10m to turnover and £1.2m to operating profit before amortisation of goodwill. All of these acquisitions have been integrated into the existing operating units and highlight the continued success of one of our strategic aims to grow by acquisition wherever a suitable opportunity arises.

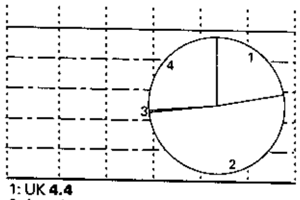
Turnover by area (£m)



1: UK **91.0**
2: Americas **110.1**
3: Australia **14.2**
4: Continental Europe and Overseas **97.7**

Operating profit by area (£m)*

* Excludes restructuring costs of £1.2m, amortisation of goodwill of £0.3m and unallocated central costs of £1.6m



1: UK **4.4**
2: Americas **9.9**
3: Australia **(0.1)**
4: Continental Europe and Overseas **5.1**

In March, AMS, a regional UK mechanical and electrical services contractor, which primarily serves the South East of England, was bought for a maximum cost of £5.3m dependent on profits achieved in a two year period to March 2002. In June and July, two US specialist contractors, FSI and TCDI, were bought for a combined price of £7.4m including deferred consideration, which further expand the geographical coverage in the US. In the last quarter, two European businesses were purchased, for a combined cost of £1.6m including deferred purchase consideration. MTS based in Switzerland will give further penetration in Central Europe and LCM, a 50% investment in a Swedish business, adds a new product range to the Group and has the potential to access markets outside Scandinavia. The total goodwill arising on these acquisitions is £11.0m which is to be written off over 20 years.

Due to a reorganisation of our businesses in the UK, Germany and Australia to react to market conditions, restructuring costs of £1.2m have been highlighted in the profit and loss account this year. Also highlighted in the profit and loss account for the first time is the amortisation of goodwill, which has increased in 2000 as a result of the above acquisitions, and will increase further next year as a full year impact of the amortisation is recognised.

Following the introduction of FRS 15, the basis of providing depreciation has been changed in 2000 to start charging depreciation in the year of purchase or capitalisation of an asset whereas in previous years depreciation had not been charged until the year following purchase or capitalisation. In addition, the reducing balance method of providing depreciation on short life assets has now been changed to a straight line method to bring consistency with the depreciation of long life assets. There is no material impact on the profit of the current year following these changes in accounting for depreciation.

The interest charge for the year doubled to £0.8m reflecting the increased borrowings to fund the year's acquisitions. The acquisitions were financed using funds denominated in the currencies of those countries where the acquisitions were located. To finance these and similar future acquisitions, in May 2000, the Group increased its central banking facilities to £42.5m, £30m of which is a five year revolving loan facility and £12.5m being a working capital facility. These facilities can be accessed by the Group's principal operating subsidiaries in any of the main operating currencies of Sterling, US dollars, Euros and Australian dollars which gives a high degree of flexibility in financing. In addition to these central facilities, the Group has a number of local overdraft and loan facilities to fund working capital movements and medium term debt requirements in its overseas locations.

Operating cash flow for 2000 was not as strong as the exceptionally high inflow in 1999 as a result of reduced profits, the partial reversal of strong working capital inflows in the last quarter of 1999 and working capital outflows in the USA due to very heavy activity in the last two months of the year.

As a result of the expenditure on acquisitions, capital expenditure again being ahead of depreciation and weaker operating cash flows, net borrowings at the year end were £9.6m giving a gearing level of 16%, reversing last year end's net cash position; peak gearing levels during the year were 26%. At the year end there were net borrowing positions in US dollars and Australian dollars with net deposits in Sterling and Euros. The Group's management of currency risk is described on page 24 of this annual report and accounts.

The tax charge for the year was similar to last year at 35.5%, higher than the UK corporation tax rate of 30% because of the large proportion of profits arising in the US where the overall rate of tax is 38.5%.

Earnings before goodwill amortisation were £10.4m, 14% lower than 1999 giving earnings per share of 18.4p. Following the recommendation of a final dividend for the year of 5.65p, the total dividend for 2000 will be 8.5p, which with an unadjusted basic earnings per share of 17.9p means that the dividend is still more than twice covered.

Equity shareholder funds grew by some 14% during 2000 and with minority interests of £0.7m, gives a net asset base of £58.7m of which £12.3m relates to goodwill. The effect on reserves of the retranslation of opening net assets at year end exchange rates was a positive impact of £1.6m due to the strengthening of the US dollar which appreciated by 7.5% with the strength of the Euro increasing by only 1%.

J R Atkinson Finance director
7 March 2001

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 Committee. Aged 63.

2 T Dobson
Chief executive

Joined the Group in 1966. President of North American operations 1986-99, now chairman. Appointed director of Keller Group in 1990, managing director in 1995 and chief executive in 1997. Member of the Nomination Committee. Aged 58.

3 J R Atkinson
Finance director

Joined the Group in 1990. Group financial controller from 1995-99. Appointed finance director in 1999. Aged 40.

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 59.

5 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 73.

6 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 senior independent non-executive director. President of Earth Technologies Inc, Europe, appointed January 2001 prior to which he was chief executive of Kelda Group plc. Dr Bond is also a non-executive director of Entrust Ltd and The Industrial Society. Aged 50.

7 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 Group plc, and a non-executive director of OSS Group Ltd and Self Serve Holdings Ltd. Aged 58.

Executive committee

T Dobson
Chief executive,
Keller Group plc

J R Atkinson
Finance director,
Keller Group plc

M W C Martin
Director
Keller Group plc

R M Rubright
President, Keller Foundations Inc

Joined the Group in 1984 with the Hayward Baker acquisition and appointed vice president, Northern Region shortly thereafter. Appointed president, Hayward Baker in 1994 and president, Keller Foundations Inc since 1998. Aged 49.

Dr A L Bell
Managing director,
Keller Ground Engineering

Joined the Group in 1984. Appointed director, Keller Colcrete 1987 and director of Keller Ltd 1990. Managing director, Keller Ground Engineering since 1998. Aged 50.

R H King
Managing director,
Makers UK Ltd

Joined the Group in 1968. Appointed director, Keller Foundations in 1987 and director of Keller Ltd in 1992. Managing director of Makers UK Ltd since 1999. Aged 52.

Dr W Sondermann
Managing director, Keller Grundbau Gmbh

Joined the Group in 1986. Appointed manager, Northern Division 1992 and deputy managing director, Keller Grundbau in 1998. Appointed managing director, Keller Grundbau January 2001. Aged 50.

P W Davis
Staff director business development, Keller Group plc

Joined the Group in 1979. Appointed executive vice president, Case Foundation Company, 1994 and director of Keller Australia Pty Ltd, since 1998. Appointed staff director business development, Keller Group plc in 2000. Aged 52.

Directors' report

The directors present their annual report and audited accounts for the year ended 31 December 2000.

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 3 to 21.

Results and dividends
The results for the year showing a profit before taxation of £15,447,000 (1999: £19,041,000) are set out on page 32. The directors recommend a final dividend of 5.65p per share to be paid on 31 May 2001, to members on the register at the close of business on 4 May 2001. An interim dividend of 2.85p per share was paid on 31 October 2000. The total dividend for the year of 8.5p (1999: 7.8p) will amount to £4,829,000 (1999: £4,428,000).

Directors
All of the directors, as set out on pages 22 and 23, served throughout the year. In addition, Mr K Kirsch, who also served throughout the year, retired with effect from 31 December 2000. Dr J M West will retire, by rotation, at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. Dr J M West does not have a service contract with the Company.

The directors' interests in the shares of the Company are set out on page 27.

Substantial shareholdings
At 7 March 2001 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	10,795,533*	19.0
Deutsche Bank AG	7,753,479*	13.6
Prudential Corporation	3,140,973	5.5
Legal & General Investment Management Ltd	2,712,801	4.8
Standard Life Investments Limited	2,359,185	4.2
AMP Asset Management plc	2,017,864	3.6
Dr J M West	1,948,000	3.4

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

* 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 retranslation of these assets might have on the balance sheet, the Group manages its borrowings, to the extent possible, to hedge its foreign currency assets. Where possible, hedging is carried out by borrowing in the same currency as the assets being hedged.

The Group manages its currency flows to minimise currency transaction exchange risk and forward contracts are used to hedge significant individual transactions. The majority of such currency flows within the Group relate to repatriation of profits and intra Group loan repayments. The Group's foreign exchange cover is executed primarily in the UK and at 31 December 2000 the principal value of forward exchange contracts amounted to £3.0m (1999: £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 29 and 30. The Remuneration Report is set out on pages 26 to 28.

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 2000 the Group had 81 days (1999: 58 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 £3,000 (1999: £2,000).

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.

The environment
The Group competes for business in a range of national markets and is committed to compliance with all relevant regulations on environmental issues in each of these markets. Environmental policies throughout the Group have been reviewed during the year and a forum has been established to review and exchange best practice information on environmental issues on a regular basis.

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 page 51.

Resolutions numbered 5 and 6 – Share option plans
These resolutions, which will be proposed as ordinary resolutions, seek authority for the adoption of an Inland Revenue approved share option plan and an unapproved share option plan. Full details of the plans are set out in a circular to shareholders which accompanies this annual report and accounts.

Resolution number 7 – 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 2002.

Resolutions numbered 8 and 9 – 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 8 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 9, 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 10 – New Articles of Association
This resolution, which will be proposed as a special resolution, seeks authority for the adoption of new Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association of the Company. Full details of the reasons for the proposed changes are set out in a circular to shareholders which accompanies this annual report and accounts.

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 10 May 2002. 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 reappointment of KPMG Audit Plc as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

J R Atkinson Secretary
7 March 2001

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 29. 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, adopted in 1998, was terminated on 21 June 2000 in accordance with the rules of the Scheme. No further awards will be granted under the Scheme but in all other respects the provisions of the Scheme shall remain in force with regard to awards that have already been granted. No awards will therefore be made in respect of the year ended 31 December 2000. The operation of the Scheme was dependent upon the discretion of the Committee and the executive directors of the Company. Participants in the Scheme were 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 2000 £000	**Fees 2000 £000**	**Benefits 2000 £000**	**Annual bonus 2000 £000**	**Total emoluments 2000 £000**	Total emoluments 1999 £000
Executive						
J R Atkinson	**100**	–	**8**	**10**	**118**	52
T Dobson (highest paid director)	**204**	–	**46**	–	**250**	298
K Kirsch	**118**	–	**35**	**27**	**180**	186
M W C Martin	**113**	–	**13**	**11**	**137**	139
R P Painting	–	–	–	–	–	207
Non-executive						
Dr J M West	**65**	–	**15**	–	**80**	76
Sir Thomas Macpherson	–	–	–	–	–	28
Dr K Bond	–	**20**	–	–	**20**	10
K Payne	–	**20**	–	–	**20**	10
Dr H Peipers	–	**15**	–	–	**15**	15
	600	**55**	**117**	**48**	**820**	1,021

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 28 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 1994 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.

It is proposed that, at the forthcoming Annual General Meeting, a new Inland Revenue approved executive share option plan and an unapproved share option plan be introduced. Full details of the proposed plans are set out in a circular to shareholders which accompanies this annual report and accounts.

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 agreement for M W C Martin is 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, however, given the long periods of service to the Group by these directors and their proximity to retirement, 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 2000 Ordinary shares	At 31 Dec 1999 Ordinary shares
J R Atkinson	**24,134**	24,134
T Dobson	**898,000**	904,000
K Kirsch	**958,850**	958,850
M W C Martin	**954,000**	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 7 March 2001.

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 62, 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 subject to Inland Revenue limits. 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 £127,000 in 2000. 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. K Kirsch retired with effect from 31 December 2000 at age 62. The scheme also provides a pension 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 2000 in respect of T Dobson were £9,600 (1999: £8,000).

	Age at 31 Dec 2000	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Transfer value of increase £000	Total accrued pension entitlement at 31 Dec 2000 £000
J R Atkinson	40	5	9	60	18
K Kirsch	62	–	3	31	38
M W C Martin	59	–	3	49	74

The total 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 2000 Number	Awards made in the year Number	**Awards at 31 December 2000 Number**
J R Atkinson	5,634	5,923	**11,557**
T Dobson	17,257	13,053	**30,310**
K Kirsch	11,157	8,854	**20,011**
M W C Martin	6,326	3,909	**10,235**

The awards made in 2000 relate to the deferred element of the 1999 annual bonus and will vest unconditionally in March 2002.

As mentioned on page 26, the Deferred Annual Bonus Scheme (the "Scheme") was terminated on 21 June 2000. No awards will therefore be made in relation to the year ended 31 December 2000.

Share option scheme

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

	At 1 January 2000 Number	**Granted in 2000 Number**	**Exercised in 2000 Number**	**At 31 December 2000 Number**	**Exercise price Pence**
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**	

The market price of the shares at 31 December 2000 was 164.5p and the range during the year was 145.5p to 270.5p. 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
7 March 2001

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 were 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 27.
(iii) One of the members of the Remuneration Committee was not considered by the Board to be independent of management. This director resigned from the Committee on 21 June 2000.

Directors
The board comprised four executive and four non-executive directors until 31 December 2000 when Mr K Kirsch retired leaving the board comprised of three 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.

The Nomination Committee is chaired by Dr J M West, the other members being Mr K Payne 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, only non-executive directors are subject to retirement by rotation. Any subsequent reappointment 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. However, it is proposed that, at the forthcoming Annual General Meeting, new Articles of Association be adopted to reflect, amongst other things, certain changes to corporate governance best practice. The effect of these changes will be that both executive and non-executive directors will be subject to retirement by rotation and that directors aged over 70 will be subject to annual reappointment.

Directors' remuneration
Until 21 June 2000, the Remuneration Committee was comprised of the four non-executive directors and was chaired by Dr K Bond. On 21 June 2000 Dr J M West resigned from the Remuneration Committee such that from that date the members have been Dr K Bond, the chairman, Mr K Payne and Dr H Peipers, all of whom are independent of management. 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 26 to 28.

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 page 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 is 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.

Following publication of guidance for directors on internal control *Internal Control: Guidance for directors on the Combined Code* (the Turnbull Guidance), the board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the board and accords with the guidance.

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

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

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

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

(d) 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.

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

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

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruptions in information systems, markets and competition, natural catastrophe and regulatory requirements.

A process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the board.

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

The chief executive reports to the board on significant changes in the business and the external environment that affect significant risks. The finance director provides the board with monthly financial information that includes key performance and risk indicators.

Where areas for improvement are identified, the board considers the recommendations made by the Audit Committee.

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 32 to 50.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 30 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 Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and 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 29 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 2000 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
7 March 2001

Consolidated profit and loss account

for the year ended 31 December 2000

	Note	2000 Continuing operations £000	2000 Continuing operations Acquisitions £000	2000 Continuing operations Total £000	1999 Continuing operations Total £000
Turnover	2	**302,880**	**10,074**	**312,954**	314,899
Operating costs	3	**(287,556)**	**(9,191)**	**(296,747)**	(295,513)
Operating profit before restructuring costs and amortisation of goodwill		**16,483**	**1,223**	**17,706**	19,362
Restructuring costs		**(1,177)**	–	**(1,177)**	–
Amortisation of goodwill		**18**	**(340)**	**(322)**	24
Operating profit	2	**15,324**	**883**	**16,207**	19,386
Net interest payable	5			**(760)**	(345)
Profit on ordinary activities before taxation	2			**15,447**	19,041
Taxation	6			**(5,485)**	(6,749)
Profit on ordinary activities after taxation				**9,962**	12,292
Equity minority interests				**140**	(112)
Profit for the financial year				**10,102**	12,180
Dividends paid and proposed	7			**(4,829)**	(4,428)
Retained profit for the financial year	20			**5,273**	7,752
Basic earnings per share	8			**17.9p**	21.5p
Earnings per share before amortisation of goodwill	8			**18.4p**	21.5p
Diluted earnings per share	8			**17.8p**	21.4p
Diluted earnings per share before amortisation of goodwill	8			**18.3p**	21.4p

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 2000

	Note	2000 £000	1999 £000
Profit for the financial year		**10,102**	12,180
Currency translation differences on overseas investments	20	**1,600**	(1,039)
Tax effect of currency translation differences		**39**	113
Total recognised gains and losses relating to the year		**11,741**	11,254

The notes on pages 36 to 50 form part of these accounts.

Consolidated balance sheet

as at 31 December 2000

	Note	2000 £000	1999 £000
Fixed assets			
Positive goodwill	9	**12,510**	1,613
Negative goodwill	9	**(209)**	(314)
		12,301	1,299
Other intangible assets	10	**395**	305
Intangible assets		**12,696**	1,604
Tangible assets	11	**50,788**	43,688
Investments	12	**–**	–
		63,484	45,292
Current assets			
Stocks	13	**7,026**	6,149
Debtors	14	**91,111**	73,400
Cash at bank and in hand	25	**13,568**	16,965
		111,705	96,514
Creditors: amounts falling due within one year	15	**(92,740)**	(72,668)
Net current assets		**18,965**	23,846
Total assets less current liabilities		**82,449**	69,138
Creditors: amounts falling due after more than one year	16	**(17,242)**	(11,451)
Provisions for liabilities and charges	17	**(6,498)**	(5,744)
Net assets	2	**58,709**	51,943
Capital and reserves			
Called up share capital	19	**5,681**	5,677
Share premium account	20	**14,545**	14,508
Capital redemption reserve	20	**7,629**	7,629
Profit and loss account	20	**30,142**	23,230
Equity shareholders' funds	21	**57,997**	51,044
Equity minority interests		**712**	899
		58,709	51,943

These accounts were approved by the board of directors on 7 March 2001 and signed on its behalf by:

J M West Chairman
J R Atkinson Finance director

The notes on pages 36 to 50 form part of these accounts.

Consolidated cash flow statement

for the year ended 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Net cash inflow from operating activities	22		19,558		27,402
Returns on investment and servicing of finance					
Interest received		664		619	
Interest paid		(1,224)		(991)	
Interest element of finance lease rental payments		(82)		(108)	
Finance costs of new bank loans		(172)		–	
Payments to minority interests		(184)		(243)	
			(998)		(723)
Taxation					
UK corporation tax paid		(821)		(679)	
Overseas tax paid		(5,014)		(6,473)	
			(5,835)		(7,152)
Capital expenditure					
Purchase of intangible fixed assets		(119)		(38)	
Purchase of tangible fixed assets		(9,779)		(8,861)	
Sale of tangible fixed assets		1,040		621	
			(8,858)		(8,278)
Acquisitions and disposals					
Acquisition of subsidiary undertakings		(9,058)		(725)	
Net cash acquired with subsidiary undertakings		271		–	
			(8,787)		(725)
Equity dividends paid			(4,571)		(4,166)
Net cash (outflow)/inflow before use of liquid resources and financing			(9,491)		6,358
Management of liquid resources					
Repayments from short term bank deposits			2,978		642
Financing					
Issue of new shares		41		133	
New bank loans drawn		9,868		3,935	
Repayment of bank loans and loan notes		(4,211)		(7,101)	
Capital element of finance lease rental payments		(307)		(339)	
Net cash inflow/(outflow) from financing			5,391		(3,372)
(Decrease)/increase in cash in the year	23		(1,122)		3,628

The notes on pages 36 to 50 form part of these accounts.

Company balance sheet

as at 31 December 2000

	Note	2000 £000	1999 £000
Fixed assets			
Investments	12	**19,846**	19,515
Current assets			
Debtors*	14	**28,509**	21,303
Cash at bank and in hand		**3,831**	2,807
		32,340	24,110
Creditors: amounts falling due within one year	15	**(8,333)**	(5,986)
Net current assets*		**24,007**	18,124
Total assets less current liabilities		**43,853**	37,639
Creditors: amounts falling due after more than one year	16	**(8,755)**	(3,439)
Net assets		**35,098**	34,200
Capital and reserves			
Called up share capital	19	**5,681**	5,677
Share premium account	20	**14,545**	14,508
Capital redemption reserve	20	**7,629**	7,629
Profit and loss account	20	**7,243**	6,386
Equity shareholders' funds		**35,098**	34,200

* Debtors and net current assets include debtors recoverable after more than one year of £12,536,000 (1999: £13,438,000).

These accounts were approved by the board of directors on 7 March 2001 and signed on its behalf by:

J M West Chairman
J R Atkinson Finance director

The notes on pages 36 to 50 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.

With the exception of changes in accounting for depreciation as described in policy (f) below, 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 for the financial year of £10,102,000 a profit of £5,686,000 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 joint arrangements, completed in previous years arising from:

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

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

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

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

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

(f) Depreciation
Depreciation is not provided on freehold land.

Depreciation is provided to write off the cost less the estimated residual value of assets by reference to their estimated useful lives using the straight line method (SL). The basis of depreciating short life plant and equipment and vehicles was changed with effect from 1 January 2000 from the reducing balance method (RB) to the straight line method. In addition, depreciation on all additions is now provided in the year of purchase or capitalisation instead of the year following purchase or capitalisation as was the case in previous years. There is no material impact on the profit of the current year following these changes in accounting for depreciation. The rates of depreciation used were:

	2000 %	1999 %
Buildings	**2 SL**	2 SL
Long life plant and equipment	**8.33 SL**	8.33 SL
Computers	**33.33 SL**	33.33 SL
Short life plant and equipment	**12.5 SL**	27 RB
Commercial vehicles	**25 SL**	40 RB
Other motor vehicles	**25 SL**	44 RB

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 1999 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:

	2000	1999
US Dollar: average for year	**1.52**	1.62
US Dollar: year end	**1.49**	1.61
Australian Dollar: average for year	**2.61**	2.51
Australian Dollar: year end	**2.67**	2.46
Euro: average for year	**1.64**	1.52
Euro: year end	**1.59**	1.61

2 Geographical analysis

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

	2000 Continuing operations £000	2000 Continuing operations Acquisitions £000	2000 Continuing operations Total £000	1999 Continuing operations Total £000
Turnover				
United Kingdom	86,397	4,624	91,021	82,301
The Americas	105,695	4,368	110,063	107,410
Continental Europe and overseas	96,607	1,082	97,689	104,382
Australia	14,181	–	14,181	20,806
	302,880	10,074	312,954	314,899
Operating profit				
United Kingdom	2,878	533	3,411	2,934
The Americas	9,433	259	9,692	12,042
Continental Europe and overseas	4,795	91	4,886	5,503
Australia	(184)	–	(184)	705
Unallocated central costs	(1,598)	–	(1,598)	(1,798)
	15,324	883	16,207	19,386
Net interest payable			(760)	(345)
			15,447	19,041

The restructuring costs and amortisation of goodwill have been analysed by geographic segment as follows: United Kingdom £937,000, The Americas £212,000, Continental Europe and Overseas £227,000 and Australia £123,000.

	2000 Continuing operations Total £000	1999 Continuing operations Total £000
Net assets		
United Kingdom	10,154	6,138
The Americas	40,070	22,857
Continental Europe and overseas	14,376	13,352
Australia	3,720	4,332
	68,320	46,679
Net (debt)/funds	(9,611)	5,264
	58,709	51,943

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 (debt)/funds and net interest payable thereon by geographic segment, and (iii) turnover by destination is not materially different from turnover by origin.

3 Operating costs

	2000 £000	1999 £000
Change in stocks of finished goods and work in progress	**(14)**	(126)
Own work capitalised	**(3,432)**	(3,143)
Raw materials and consumables	**73,753**	73,703
Other external and operating charges	**129,797**	132,461
Staff costs	**89,641**	86,264
Amortisation of goodwill and intangibles	**363**	(10)
Depreciation: tangible owned fixed assets	**6,477**	5,914
tangible fixed assets held under finance leases	**162**	450
	296,747	295,513
Other external and operating charges include:		
Auditors' remuneration: audit fees (Company: £42,000 (1999: £33,000))	**340**	278
fees paid to the auditors and associates for other services	**251**	113
Rental of plant and equipment	**21,859**	21,841
Rental of property	**1,684**	1,735
Restructuring costs	**1,177**	–

4 Employees

The aggregate staff costs of the Group were:

	2000 £000	1999 £000
Wages and salaries	**75,457**	72,583
Social security costs	**12,076**	11,908
Other pension costs	**2,108**	1,773
	89,641	86,264

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 Financial Services Authority are on pages 26 to 28 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:

	2000 Number	1999 Number
United Kingdom	**871**	812
The Americas	**677**	654
Continental Europe and overseas	**1,142**	1,107
Australia	**305**	332
	2,995	2,905

Notes to the accounts continued

5 Net interest payable

	2000 £000	1999 £000
Interest payable on bank loans and overdrafts	**869**	617
Interest on other loans	**475**	238
Interest payable on finance leases	**82**	108
	1,426	963
Interest receivable	**(666)**	(618)
	760	345

6 Taxation

The taxation charge comprises:

	2000 £000	1999 £000
UK corporation tax at 30% (1999: 30.25%)	**904**	747
Double tax relief	**(86)**	(163)
Overseas tax	**5,074**	6,190
Deferred tax	**(379)**	231
Over provisions in respect of prior years	**(28)**	(256)
	5,485	6,749

7 Dividends paid and proposed

Ordinary dividends on equity shares:

	2000 £000	1999 £000
Interim paid	**1,619**	1,476
Final proposed	**3,210**	2,952
	4,829	4,428

An interim ordinary dividend of 2.85p (1999: 2.6p) per share was paid on 31 October 2000.

The final proposed ordinary dividend of 5.65p (1999: 5.2p) per share will be paid on 31 May 2001.

8 Earnings per share

Earnings per share is calculated as follows:

	2000 Basic	2000 Diluted	1999 Basic	1999 Diluted
Profit after tax and minority interests	**£10,102,000**	**£10,102,000**	£12,180,000	£12,180,000
	No. of shares	**No. of shares**	No. of shares	No. of shares
Weighted average of ordinary shares in issue during the year	**56,529,208**	**56,529,208**	56,664,581	56,664,581
Add: Weighted average of shares under option during the year	–	**188,365**	–	257,414
Add: Weighted average of own shares held	–	**277,427**	–	78,005
Subtract: Number of shares assumed issued at fair value during the year	–	**(91,467)**	–	(100,676)
Adjusted weighted average ordinary shares in issue	**56,529,208**	**56,903,533**	56,664,581	56,899,324
	pence	**pence**	pence	pence
Earnings per share:	**17.9**	**17.8**	21.5	21.4

Earnings per share before amortisation of goodwill of 18.4p (1999: 21.5p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £10,424,000 (1999: £12,156,000) and the weighted average number of ordinary shares in issue during the year of 56,529,208 (1999: 56,664,581).

Diluted earnings per share before amortisation of goodwill of 18.3p (1999: 21.4p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £10,424,000 (1999: £12,156,000) and the adjusted weighted average number of ordinary shares in issue during the year of 56,903,533 (1999: 56,899,324).

9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 2000	1,716	(489)	1,227
Additions	11,324	–	11,324
At 31 December 2000	**13,040**	**(489)**	**12,551**
Amortisation			
At 1 January 2000	103	(175)	(72)
Charge/(credit) for the year	427	(105)	322
At 31 December 2000	**530**	**(280)**	**250**
Net book value			
At 31 December 2000	**12,510**	**(209)**	**12,301**
Net book value			
At 31 December 1999	1,613	(314)	1,299

In March 2000, the Group acquired Allied Mechanical Services Limited ("AMS") for an initial consideration of £3,873,000 (including related fees of £105,000) of which £1,073,000 was paid in cash in March 2000, £2,700,000 settled by the issuing of guaranteed loan notes and £100,000 in 5% cumulative redeemable preference shares in AMS Holdings Limited, an intermediate holding company set up to hold this investment. Depending upon the profit performance of AMS in the period to 31 March 2002 a deferred purchase consideration of up to £1,400,000 will be payable. The directors estimate that this amount will be paid in full.

In June 2000, the Group acquired the assets of Foundation Services Inc ("FSI"), for an initial cash consideration of £2,406,000 including related fees of £93,000. This amount is subject to revision based on the audited net assets at the date of acquisition. The directors estimate that an additional payment of £81,000 will be required. In addition, a deferred purchase consideration of up to £67,000 is payable depending on profit performance in the first 12 months of ownership.

In July 2000, TCD Inc and Geotechnical Modifications Inc (together "TCDI") were acquired by the Group for an initial cash consideration of £4,092,000 including related fees of £84,000. This amount is subject to revision based on the audited net assets at the date of acquisition. The directors estimate that an additional payment of £370,000 will be required. In addition, a deferred purchase consideration of £336,000 is payable in instalments over the six years from the date of acquisition.

In October 2000, the Group acquired the share capital of Minages et Travaeux Souterrains SA ("MTS") for an initial cash consideration of £373,000 including related fees of £4,000 and a deferred purchase consideration of £206,000 which is payable dependent upon the operating profit of the company in the period to 31 December 2002.

In November 2000, the Group acquired 50% of the share capital of Lime Column Markteknik AB ("LCM") for an initial cash consideration of £931,000 including related fees of £44,000 and a deferred purchase consideration of £91,000 which is payable based on the level of sales of the company in the period to 31 December 2003.

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

Positive goodwill on acquisitions is amortised over its estimated economic life which is considered to be 20 years. 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:

	AMS £000	FSI £000	TCDI £000	MTS £000	LCM £000	Total £000
Tangible fixed assets	126	1,277	413	155	441	2,412
Stocks	3	29	243	–	–	275
Debtors	602	862	1,605	305	535	3,909
Net cash/(overdrafts)	530	–	254	(92)	(421)	271
Debt	–	(492)	(931)	–	–	(1,423)
Creditors	(1,092)	(356)	(909)	(261)	(399)	(3,017)
Net assets acquired	169	1,320	675	107	156	2,427

Notes to the accounts continued

9 Goodwill continued

	Makers	Genco	AMS	FSI	TCDI	MTS	LCM	2000 Total £000	1999 Total £000
Net assets acquired	–	–	169	1,320	675	107	156	**2,427**	75
Fair value adjustments:									
Fixed asset revaluations	–	–	–	374	538	99	–	**1,011**	–
Accounting policy alignment	–	–	(122)	–	–	–	–	**(122)**	–
Fair value of net assets acquired	–	–	47	1,694	1,213	206	156	**3,316**	75
Minority interests in net assets acquired	–	–	–	–	–	–	(64)	**(64)**	–
Group interests in net assets acquired	–	–	47	1,694	1,213	206	92	**3,252**	75
Positive goodwill arising on investment	331	19	5,226	860	3,585	373	930	**11,324**	100
Cost of investment	331	19	5,273	2,554	4,798	579	1,022	**14,576**	175
Less: loan notes	(167)	–	(2,700)	–	–	–	–	**(2,867)**	–
Less: other consideration	–	–	(100)	–	–	–	–	**(100)**	–
Less: deferred purchase consideration	–	–	(1,400)	(148)	(706)	(206)	(91)	**(2,551)**	–
Deferred purchase considerations in respect of prior year acquisitions	–	–	–	–	–	–	–	–	550
Acquisition of subsidiary undertakings per cash flow	164	19	1,073	2,406	4,092	373	931	**9,058**	725

10 Other intangible assets

Group	Licenses £000
Cost	
At 1 January 2000	363
Additions	119
Exchange differences	14
At 31 December 2000	**496**
Amortisation	
At 1 January 2000	58
Charge for the year	41
Exchange differences	2
At 31 December 2000	101
Net book value	
At 31 December 2000	**395**
Net book value	
At 31 December 1999	305

11 Tangible assets

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
Cost				
At 1 January 2000	16,180	75,854	115	92,149
Exchange differences	428	1,750	4	2,182
Additions	495	8,965	319	9,779
Acquired with subsidiary undertakings	336	3,087	–	3,423
Disposals	–	(3,613)	–	(3,613)
Reclassification	20	73	(93)	–
At 31 December 2000	**17,459**	**86,116**	**345**	**103,920**
Depreciation				
At 1 January 2000	2,093	46,368	–	48,461
Exchange differences	41	1,100	–	1,141
Charge for the year	251	6,388	–	6,639
Disposals	–	(3,109)	–	(3,109)
Reclassification	4	(4)	–	–
At 31 December 2000	**2,389**	**50,743**	–	**53,132**
Net book value				
At 31 December 2000	**15,070**	**35,373**	**345**	**50,788**
Net book value				
At 31 December 1999	14,087	29,486	115	43,688

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

	2000 £000	1999 £000
Land and buildings	**590**	591
Plant, machinery and vehicles	**1,714**	1,748
	2,304	2,339

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

	2000 Cost £000	2000 Accumulated depreciation £000	2000 NBV £000	1999 NBV £000
Freehold land	**5,141**	–	**5,141**	4,652
Freehold buildings	**11,032**	**(1,693)**	**9,339**	8,839
Short leases	**1,286**	**(696)**	**590**	596
	17,459	**(2,389)**	**15,070**	14,087

12 Investments

Cost	2000 Group £000	1999 Group £000	2000 Company £000	1999 Company £000
Own shares	**778**	535	**778**	535
Less: amounts owed to beneficiaries of Employee Benefit Trust	**(778)**	(535)	**(778)**	(535)
Subsidiary undertakings	–	–	**19,846**	19,515
	–	–	**19,846**	19,515

The market value of the investment in 318,000 own shares at 31 December 2000 was £523,110. As noted on page 26 this investment relates to purchases under the Keller Group plc Deferred Annual Bonus Scheme to cover awards and anticipated awards by the Keller Group plc Employee Benefit Trust.

12 Investments continued

The Company's principal operating subsidiary undertakings at 31 December 2000 were as follows. A full list of subsidiaries will be annexed to the Company's next annual return.

Subsidiary undertaking	Country of incorporation
Keller Limited*	Great Britain
Makers UK Limited	Great Britain
Allied Mechanical Services Limited	Great Britain
Keller Grundbau GmbH	Germany
Keller Fondations Spéciales SARL	France
Keller Grundbau Ges.mbH	Austria
Keller Specialne zakladanie, spol. sr.o.	Slovakia
Keller Specialni zakladani, spol. sr.o.	Czech Republic
Keller Grundbau Mélyépítö kft	Hungary
Minages et Traveaux Souterrains SA	Switzerland
Keller Funderingstecknieken B.V.	Holland
Keller Cimentaciones Especiales	Spain
Lime Column Markteknik AB	Sweden
Keller Polska Sp. z o.o.	Poland
Keller Fondazioni S.r.l.	Italy
Keller (Malaysia) Sdn. Bhd.	Malaysia
Keller Foundations (South East Asia) Pte Ltd	Singapore
Keller Turki Company Ltd	Saudi Arabia
Geotechnical Engineering Contractor Ltd	Egypt
Construction Requirement Company Ltd	Egypt
Hayward Baker 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
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 Frankipile Australia Pty Ltd which is owned 83.3% by Keller Holdings Ltd, Lime Column Markteknik AB which is owned 50% by Keller Holding GmbH, 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 are engaged in the principal activities of the Group, as defined in the directors' report.

13 Stocks

Group	**2000 £000**	1999 £000
Raw materials and consumables	**6,396**	4,984
Work in progress	**67**	383
Finished goods	**563**	782
	7,026	6,149

14 Debtors

	2000 Group £000	1999 Group £000	**2000 Company £000**	1999 Company £000
Trade debtors	**81,773**	66,661	–	–
Amounts recoverable on contracts	**3,519**	1,786	–	–
Amounts owed by subsidiary undertakings	–	–	**27,891**	20,874
Other debtors	**4,212**	3,375	**614**	406
Prepayments	**1,607**	1,578	**4**	23
	91,111	73,400	**28,509**	21,303
Included in the above are amounts falling due after more than one year in respect of:				
Amounts owed by subsidiary undertakings	–	–	**12,418**	13,418
Other debtors	**1,569**	1,575	**118**	20
	1,569	1,575	**12,536**	13,438

15 Creditors: amounts falling due within one year

	2000 Group £000	1999 Group £000	2000 Company £000	1999 Company £000
Overdrafts	**801**	244	–	–
Bank loans	**746**	1,280	–	–
Loan notes	**7,068**	639	**4,368**	639
Trade creditors	**45,685**	33,392	**568**	460
Obligations under finance leases	**321**	270	–	–
Amounts owed to subsidiary undertakings	–	–	**101**	1,646
Other creditors	**19,164**	20,896	**10**	223
Accruals	**6,625**	4,653	**76**	66
Corporation and withholding taxes payable	**3,027**	3,156	–	–
Other taxes and social security payable	**6,093**	5,186	–	–
Dividends payable	**3,210**	2,952	**3,210**	2,952
	92,740	72,668	**8,333**	5,986

There are no fixed terms for the repayment of loan notes amounting to £4,368,000. Loan note holders have the right to require the Company to repay up to the whole of their holding on any date between 15 March 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 these loan notes has been assessed according to the earliest period during which loan note holders can demand repayment, namely 15 March to 14 April 2001.

Interest on these loan notes is charged at a rate for six month Sterling deposits and at 31 December 2000 this interest rate was 6.3% (1999: 6%).

Loan notes amounting to £2,700,000 are redeemable after 6 April 2001 at the option of the loan note holders on giving 30 days' notice. The repayment of these loan notes has been assumed to be within one year.

Interest on these loan notes is charged at a rate for six month Sterling deposits less 0.5%. At 31 December 2000 this interest rate (net) was 5.8%.

As detailed in note 18, the Group has sufficient unutilised committed banking facilities to meet this potential short-term obligation.

16 Creditors: amounts falling due after more than one year

	2000 Group £000	1999 Group £000	2000 Company £000	1999 Company £000
Bank loans	**12,860**	5,139	–	–
Loan notes	–	2,557	–	2,557
Obligations under finance leases	**1,383**	1,572	–	–
Amounts owed to subsidiary undertaking	–	–	**8,755**	–
Other creditors	**2,999**	2,183	–	882
	17,242	11,451	**8,755**	3,439
Bank loans and loan notes are repayable as follows:				
Between one and two years	**1,650**	2,998	–	1,278
Between two and five years	**11,210**	4,698	–	1,279
	12,860	7,696	–	2,557
Obligations under finance leases are repayable as follows:				
Between one and two years	**288**	263	–	–
Between two and five years	**851**	836	–	–
In five years or more	**244**	473	–	–
	1,383	1,572	–	–

The amount owed to subsidiary undertaking by Keller Group plc is a loan which is repayable in full within 13 months after the lender's written demand for repayment. The loan bears interest at LIBOR plus 1% per annum.

Bank loans totalling £10,572,000 are due for repayment by May 2005. Interest is charged at a premium over LIBOR and at 31 December 2000 the weighted average interest rate was 7.4%. Loans of £1,367,000 are repayable in equal quarterly instalments of £72,000 with a final instalment of £936,000 in June 2002. Interest is charged at 6.3% per annum.

A loan of £1,667,000 is repayable £431,000, £674,000 and £562,000 in 2001, 2002 and 2003 respectively. The loan bears interest at 6.15% per annum.

16 Creditors: amounts falling due after more than one year continued

The bank loans are denominated in currencies other than Sterling, as follows:

Group	2000 £000	1999 £000
Loans denominated in Euros	**676**	646
Loans denominated in US Dollars	**11,263**	2,190
Loans denominated in Australian Dollars	**1,667**	3,583
	13,606	6,419

17 Provisions for liabilities and charges

Group	2000 £000	1999 £000
Deferred taxation	–	74
Retirement provisions	**5,617**	5,303
Long service leave provisions	**302**	367
Provision for restructuring costs	**579**	–
	6,498	5,744
Deferred taxation		
At 1 January	**74**	–
Exchange differences	**(20)**	(52)
Transfer to current tax	**325**	(105)
Profit and loss account	**(379)**	231
At 31 December	–	74

The total potential net deferred taxation liability is as follows:

	2000 Amount provided £000	2000 Potential liability £000	1999 Amount provided £000	1999 Potential liability £000
Accelerated capital allowances	–	**4,503**	–	3,835
Other timing differences	–	**(3,230)**	74	(2,969)
	–	**1,273**	74	866

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.

	2000 £000	1999 £000
Retirement provisions (see note 29)		
At 1 January	**5,303**	5,632
Exchange differences	**74**	(678)
Arising during the year	**261**	355
Utilised during the year	**(21)**	(6)
At 31 December	**5,617**	5,303
Long service leave provisions		
At 1 January	**367**	326
Exchange differences	**(29)**	33
Arising during the year	**18**	16
Utilised during the year	**(54)**	(8)
At 31 December	**302**	367

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.

17 Provisions for liabilities and charges continued

	2000 £000	1999 £000
Provision for restructuring costs		
Profit and loss account	**1,177**	–
Expenditure during the year	**(598)**	–
At 31 December	**579**	–

It is anticipated that the remaining provision will be utilised in the course of 2001.

18 Treasury information

Interest rate and currency profile:

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

	2000 AUD	2000 USD	2000 Euro	2000 Sterling	2000 Total
Weighted average fixed debt interest rate	–	**6.23%**	–	**7.47%**	**n/a**
Weighted average fixed debt period (years)	–	**2.8**	–	**10**	**n/a**
	£000	**£000**	**£000**	**£000**	**£000**
Fixed rate financial liabilities	–	**(2,378)**	–	**(367)**	**(2,745)**
Floating rate financial liabilities	**(1,839)**	**(9,915)**	**(1,612)**	**(7,068)**	**(20,434)**
Financial assets	–	**414**	**3,467**	**9,687**	**13,568**
Net financial assets/(liabilities)	**(1,839)**	**(11,879)**	**1,855**	**2,252**	**(9,611)**

	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

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

The floating rate financial liabilities comprise finance leases, 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 had an unutilised committed banking facility of £14.7m at 31 December 2000; the facility expires on 25 May 2005. In addition, the Group had available uncommitted facilities totalling £7.8m at 31 December 2000. All of these borrowing facilities are unsecured.

19 Share capital

Company	2000 £000	1999 £000
Authorised		
Equity share capital: 80,000,000 ordinary shares of 10p each (1999: 80,000,000)	**8,000**	8,000
Allotted, called up and fully paid		
Equity share capital: 56,815,050 ordinary shares of 10p each (1999: 56,775,050)	**5,681**	5,677

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 2005. At 1 January 2000 options under this scheme were outstanding over 219,950 ordinary shares at 102p each. 40,000 options were exercised during the year.

Notes to the accounts continued

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2000	14,508	7,629	23,230	45,367
Retained profit for the financial year	–	–	5,273	5,273
Exchange differences net of taxation	–	–	1,639	1,639
Issue of new shares	37	–	–	37
At 31 December 2000	**14,545**	**7,629**	**30,142**	**52,316**
Company				
At 1 January 2000	14,508	7,629	6,386	28,523
Retained profit for the financial year	–	–	857	857
Issue of new shares	37	–	–	37
At 31 December 2000	**14,545**	**7,629**	**7,243**	**29,417**

At 31 December 2000 the cumulative amount of positive goodwill charged to reserves in previous years is £11,998,000 (1999: £11,998,000) and the cumulative amount of negative goodwill credited to reserves in previous years is £407,000 (1999: £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

	2000 Group £000	1999 Group £000	**2000 Company £000**	1999 Company £000
Profit for the financial year	**10,102**	12,180	**5,686**	4,062
Dividends	**(4,829)**	(4,428)	**(4,829)**	(4,428)
Exchange differences net of taxation	**1,639**	(926)	**–**	–
Issue of new shares	**41**	133	**41**	133
Net movements in shareholders' funds	**6,953**	6,959	**898**	(233)
Shareholders' funds at 1 January	**51,044**	44,085	**34,200**	34,433
Shareholders' funds at 31 December	**57,997**	51,044	**35,098**	34,200

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

Group	**2000 £000**	1999 £000
Operating profit	**16,207**	19,386
Depreciation charge	**6,639**	6,364
Amortisation of goodwill and intangibles	**363**	14
Profit on sale of fixed assets	**(536)**	(164)
Movement in long-term provisions	**783**	357
Increase in stocks	**(568)**	(456)
Increase in debtors	**(9,887)**	(8,581)
Increase in creditors	**6,557**	10,482
Net cash inflow from operating activities	**19,558**	27,402

23 Reconciliation of net cash flow to movement in net debt

Group	2000 £000	1999 £000
(Decrease)/Increase in cash in the year	**(1,122)**	3,628
Cash flow from debt and lease financing	**(5,350)**	3,505
Cash flow from (decrease) in short-term bank deposits	**(2,978)**	(642)
Change in net debt resulting from cash flows	**(9,450)**	6,491
Net debt acquired with subsidiary undertakings	**(1,423)**	–
New finance leases	**(79)**	–
New loan notes	**(3,969)**	–
Exchange differences	**46**	(579)
Movement in net debt in the year	**(14,875)**	5,912
Net funds/(debt) at 1 January	**5,264**	(648)
Net (debt)/funds at 31 December	**(9,611)**	5,264

24 Analysis of changes in net debt

Group	At 1 January 2000 £000	Cash flow £000	Acquired with subsidiary undertakings £000	Other non-cash changes £000	Exchange differences £000	At 31 December 2000 £000
Cash in hand	10,893	(567)	–	–	138	**10,464**
Overdrafts	(244)	(555)	–	–	(2)	**(801)**
	10,649	(1,122)	–	–	136	**9,663**
Short term bank deposits	6,072	(2,978)	–	–	10	**3,104**
Bank loans due within one year	(1,280)	306	–	133	95	**(746)**
Bank loans due after one year	(5,139)	(6,060)	(1,423)	(133)	(105)	**(12,860)**
Loan notes due within one year	(639)	–	–	(6,429)	–	**(7,068)**
Loan notes due after one year	(2,557)	97	–	2,460	–	–
Finance leases	(1,842)	307	–	(79)	(90)	**(1,704)**
	5,264	(9,450)	(1,423)	(4,048)	46	**(9,611)**

25 Cash at bank and in hand

Group	2000 £000	1999 £000
Cash in hand	**10,464**	10,893
Short term bank deposits	**3,104**	6,072
	13,568	16,965

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	2000 £000	1999 £000
Share of turnover from the joint arrangements	**5,992**	9,379
Net joint arrangement balances at 1 January	**585**	1,479
Share of profit from the joint arrangements before overhead allocation	**(25)**	2,539
Net distributions from the joint arrangements	**(423)**	(3,377)
Exchange differences	**86**	(56)
Net joint arrangement balances at 31 December	**223**	585
Joint arrangement debtor balances at 31 December	**982**	700
Joint arrangement creditor balances at 31 December	**(759)**	(115)

27 Commitments

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

	2000 £000	1999 £000
Contracted for	**576**	7

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

	2000 Land and buildings £000	2000 Plant, machinery and vehicles £000	2000 Total £000	1999 Total £000
Expiring within one year	**519**	**348**	**867**	670
Expiring between two and five years inclusive	**1,284**	**1,612**	**2,896**	2,366
Expiring in over five years	**301**	**5**	**306**	43
	2,104	**1,965**	**4,069**	3,079

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 2000 the Group had discounted bills of exchange and standby letters of credit outstanding of £1,135,865 (1999: £833,813).

29 Pensions

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

In the UK, the Group's defined benefit schemes were merged on 5 April 1999 to become the Keller Group Pension Scheme which is now closed for new employees. The assets of the scheme are held separately from the Group in trustee administered funds which are managed by investment managers. Prior to merging, 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 £618,000 (1999: £392,000).

At 6 October 1999, a defined contribution scheme was established. There were no contributions outstanding in respect of the defined contribution scheme at 31 December 2000.

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 2000 the liability was £5,617,000 (1999: £5,303,000). The total German and Austrian pension charge for the year was £593,000 (1999: £613,000) 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 £628,000 (1999: £544,000).

In Australia there is a defined contribution scheme where the Group is required to ensure that a prescribed level of superannuation support of an employee's notional base earnings is made. This prescribed level of support is currently 7%. The total Australian pension charge for the year was £269,000 (1999: £224,000).

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 Wasserstein, 20 Fenchurch Street, London EC3P 3DB on 10 May 2001 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 2000 together with the report of the auditors thereon.

(2) To declare a final dividend of 5.65p per ordinary share, such dividend to be paid on 31 May 2001 to members on the register at the close of business on 4 May 2001.

(3) To reappoint Dr J M West as a director who retires by rotation and being eligible offers himself for re-election.

(4) To reappoint 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 5, 6 and 7 will be proposed as ordinary resolutions and resolutions numbered 8, 9, 10 and 11 will be proposed as special resolutions:

(5) THAT the Keller Group plc Unapproved Company Share Option Plan ("Unapproved Plan"), a copy of the rules of which is laid before the meeting and have been initialled by the chairman for the purposes of identification, be and is hereby approved and adopted and the directors of the Company be authorised to do all acts and things which they may consider necessary or expedient for implementing the Unapproved Plan, including making minor amendments.

(6) THAT the Keller Group Approved Company Share Option Plan ("Approved Plan"), a copy of the rules of which is laid before the meeting and have been initialled by the chairman for the purposes of identification, be and is hereby approved and adopted and the directors of the Company be authorised to all acts and things which they may consider necessary or expedient for implementing the Approved Plan or to obtain or maintain its approval by the Commissioners of Inland Revenue, including making minor amendments.

(7) 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 2002.

(8) 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 £1,893,835 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.

(9) THAT, subject to the passing of resolution 8 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 8 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 £284,075

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.

(10) THAT the regulations as set out in the document produced to the meeting and, marked "A" and initialled by the chairman for the purpose of identification, be adopted with immediate effect as the new articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company.

(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 10 May 2002 (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
Secretary
7 March 2001

Registered office:
Aztec House, 397-405 Archway Road
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, the existing memorandum and articles of association, the proposed new articles of association, the rules of the Unapproved Plan and the rules of the Approved Plan 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

	1996 £000	1997 £000	1998 £000	1999 £000	**2000 £000**
Consolidated profit and loss account					
Turnover	239,009*	244,645*	266,854	314,899	**312,954**
Operating profit before restructuring costs and amortisation of goodwill	12,754	14,264	16,995	19,362	**17,706**
Restructuring costs	–	–	–	–	**(1,177)**
Amortisation of goodwill	–	–	48	24	**(322)**
Operating profit	12,754	14,264	17,043	19,386	**16,207**
Net interest payable	(231)	(440)	(341)	(345)	**(760)**
Profit on ordinary activities before taxation	12,523	13,824	16,702	19,041	**15,447**
Taxation	(4,468)	(4,813)	(5,870)	(6,749)	**(5,485)**
Profit on ordinary activities after taxation	8,055	9,011	10,832	12,292	**9,962**
Equity minority interests	(249)	(86)	(354)	(112)	**140**
Profit for the financial year	7,806	8,925	10,478	12,180	**10,102**
Dividends paid and proposed	(3,276)	(3,612)	(4,021)	(4,428)	**(4,829)**
Retained profit for the financial year	4,530	5,313	6,457	7,752	**5,273**
Consolidated balance sheet					
Intangible fixed assets	–	–	1,506	1,604	**12,696**
Tangible fixed assets	34,785	36,195	42,839	43,688	**50,788**
Other net operating assets	12,133	13,937	14,756	14,081	**18,969**
Net (debt)/funds	(2,235)	(1,969)	(648)	5,264	**(9,611)**
Other liabilities	(12,129)	(12,300)	(13,419)	(12,694)	**(14,133)**
Net assets	32,554	35,863	45,034	51,943	**58,709**
Equity minority interests	(211)	(124)	(949)	(899)	**(712)**
Equity shareholders' funds	32,343	35,739	44,085	51,044	**57,997**
Gearing	7%	5%	1%	0%	**16%**
Basic earnings per share	13.9p	15.9p	18.6p	21.5p	**17.9p**
Earnings per share before amortisation of goodwill	13.9p	15.9p	18.5p	21.5p	**18.4p**
Diluted earnings per share	13.9p	15.8p	18.5p	21.4p	**17.8p**
Diluted earnings per share before amortisation of goodwill	13.9p	15.8p	18.4p	21.4p	**18.3p**
Dividend per share	5.85p	6.45p	7.1p	7.8p	**8.5p**

* Restated for the effects of FRS 9.

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