

Keller Group plc

Report and Accounts 2001
Global Construction Services



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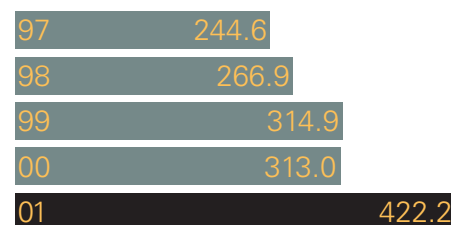
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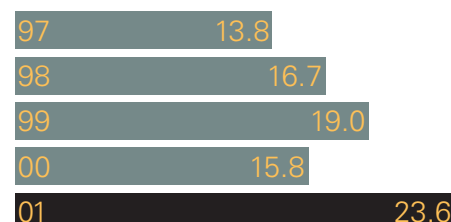
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Keller, the global construction services Group, is renowned for providing innovative and cost-effective solutions to ground engineering problems, refurbishment projects and post-tension systems. Keller has unrivalled coverage in Europe, North America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

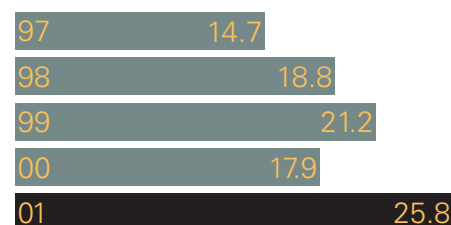
Turnover (£m) **+35%**



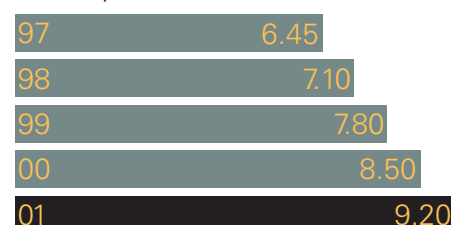
Profit before tax (£m) **+49%**
(before amortisation of goodwill)



Earnings per share (p) (restated*) **+44%**
(before amortisation of goodwill)



Dividend per share (p) **+8%**



*restated for the effects of FRS 19



Chairman's statement

Our foundations businesses are consolidating their leading market positions, as their reputation for innovative solutions continues to grow and they expand their geographical coverage and market share.

I am pleased to report a record set of results for 2001: Group sales at £422.2m were up 35% (2000: £313.0m), with profit before tax and goodwill amortisation up 49% to £23.6m (2000: £15.8m). Earnings per share before goodwill amortisation increased to 25.8p (2000: 17.9p), representing growth of 44%. This decisive recovery underlines the Group's strong business fundamentals and is further evidence of the success of our growth strategy, outlined in my statement in last year's Annual Report.

The acquisition during the year of Suncoast represented a step change for the Group, increasing a full year contribution of our specialist services businesses from 15% of sales in 2000 to some 30%. We believe that, in the medium term, the balance of the Group will be optimised by further increasing the contribution of this sector of our business. We shall continue to look for acquisitions of niche businesses, principally in Europe, which provide value-added services to the construction industry.

Our foundations businesses are consolidating their leading market positions, as their reputation for innovative solutions continues to grow and they expand their geographical coverage and market share. We shall support their ongoing development through investment in skills, plant and technology and, within the Group, will continue to facilitate

co-operation, the exchange of ideas and the promotion of best practice.

In light of this strong performance, the board is recommending an increased final dividend of 6.05p per share, bringing the total dividend for the year to 9.2p (2000: 8.5p).

In reviewing the performance of the Group in 2001, I am struck by the resilience and resourcefulness of all parts of our business. Our North American operations have had an exceptional year, taking full advantage of a strong market. In the UK, the Makers business has made good progress in developing partnerships with both public and private sector clients, which will bear fruit in the future. We have seen a very good performance from Continental Europe and overseas, with particularly strong organic growth in France and the Far East. The Franki operations in Australia and Indonesia have shown an impressive turnaround, and look set to steer a steady course in 2002.

At the end of last year, we announced the retirement from the board of Mike Martin. Mike's wise counsel and management experience will be missed and the board wishes him well in his retirement. In December, we welcomed Gerry Brown to the board as a non-executive director, followed by the appointment of Richard Scholes as a non-executive director in February of this year. With these new non-executive appointments secured, Dr Harald Peipers and Dr Kevin Bond have

decided to stand down as non-executive directors at the forthcoming Annual General Meeting, having been with Keller since 1995 and 1999 respectively. We thank them both for their contributions to the development of the Group and wish them well for the future.

Keller has experienced significant change during the past year: the integration of a major new business, changes in the structure of some of our marketplaces, general economic uncertainty and ever more stringent standards and regulations. Our people, on whom the performance of the Group rests, have once again responded extremely well to these challenges. I would like to thank them for their hard work in 2001. The board is committed to rewarding their loyalty with excellent training and development opportunities, in an environment where they can fulfil their potential and really make a difference.

In closing, I am pleased to be able to report that 2002 has started well for the Group, with a total order book at the start of the year some 27% ahead of the previous year, on a like for like basis. This encouraging start, together with the on-target performance of Suncoast since its acquisition last October, lead me to anticipate a good performance for the group in 2002.

Dr J M West Chairman
6 March 2002



Operating review

The performance of the Group in 2001 confirms that our strategy of maintaining global leadership in the core foundations businesses, while expanding our range of specialist services, continues to deliver benefits for the Company, its shareholders and its employees.

The past year has been highly successful for Keller: these excellent results show that the Group's impressive track record has been restored; we have completed a major acquisition of a niche business in an expanding market; and we have extended our range of specialist services and our geographical reach, both through the successful integration of bolt-on acquisitions made during 2000 and 2001 and through the increasing acceptance of Keller techniques.

These results reflect record performances in North America, combined with a good performance in Europe and a strong rebound in Australia.

Conditions in our major markets

The construction industry in North America remained strong and we experienced infrastructure spending at an all time high, with no slowdown since the events of 11 September. In most of our key European markets, conditions were good, offset to some extent by weakness in Germany and Austria. The UK refurbishment sector, in which Makers operates, continued to be buoyant. The Far East was strong, whilst the Middle East was subdued.

The Group has demonstrated a degree of insulation from weaknesses in individual construction markets. In part, this is due to our broad

geographical spread, which means that we face a variety of market conditions in any one year. It also reflects the mix of schemes in which we are involved. With around 20% to 30% of our work in remediation or refurbishment and a further 20% to 30% in public infrastructure, a significant proportion of our work is unaffected by volatility in the private construction sector.

Strategic developments

In our last Annual Report, we stated our commitment to the expansion of our range of specialist services as we continue to strengthen our position as an international market leader in foundation services. Throughout our ongoing evaluation of potential acquisitions, we have focused, in particular, on providers of specialist, value-added services to the construction industry which are leaders in their target markets and offer opportunities for growth.

On 1 October 2001, we acquired the business and assets of Suncoast for \$90m. Suncoast is a leading designer, fabricator and distributor of post-tension cable systems to the construction industry in North America. This acquisition represents a significant step in Keller's development, providing growth opportunities in new, specialist construction services outside our traditional foundation services markets.

Suncoast, together with Makers – our UK refurbishment and facilities management business – and Wannewetsch – a German specialist construction service business in which we acquired a 49% stake in January 2002 – will form the basis of our new specialist services division. We believe this new structure will encourage greater management focus which should enable the parallel development and growth of the foundations and specialist services businesses.

In November 2001, we acquired the assets of Catoh – a US, regional geotechnical construction business specialising in heavy drilling techniques. The performance and integration of acquisitions made during the year are discussed in the following review of operations.

Niagara Falls, North America

Problem: In North America, we were called upon to assist in creating a working platform for the extension of the observation tower at the Niagara Falls Visitors' Center.

Solution: Hayward Baker and Catch combined their specialist skills to install rock anchors in the river gorge wall to support guy wires for a full height scaffolding system around the tower. A crane was used to position the drill rig on the rock wall.



Foundations

Hayward Baker gave its best-ever performance with record sales, gross margin and operating profit.

The results of the foundations operations were excellent in 2001, with sales 31% ahead at £347.8m (2000: £265.3m) and operating profit before amortisation of goodwill of £23.6m (2000: £16.6m), some 42% better than the previous year. This strong growth was largely organic, with all operating units showing sales ahead of last year.

North America

2001 was a record year for our North American operations, with operating profit well ahead of the previous year, reflecting the strong underlying fundamentals of our North American businesses.

Hayward Baker gave its best-ever performance with record sales, gross margin and operating profit due, in part, to its core strategy of regionalisation throughout North America. Whilst offering global technologies, regionalisation offers clients a local presence, which is considered essential in winning small and medium-sized contracts. In line with this strategy, we opened an office in the San Francisco Bay area in December 2001 to foster interest in the area. Another success factor was the strong growth in several key product markets in the geotechnical construction sector.

The construction community continues to adopt our techniques in ever increasing numbers, progressively expanding our market share. Such techniques include minipiling, soil mixing, jet grouting and vibro.

Hayward Baker and Case continued to be involved in contracts at port facilities, power stations, mass transit systems, airports and TEA21 infrastructure projects, along with a wide variety of small to medium sized jobs in the private sector.

Among the major contracts undertaken during the year was work following the tragic events at the World Trade Center. Shortly after 11 September, Hayward Baker was contacted by New York City's consulting engineers to discuss possible assistance with underground support throughout the recovery and reconstruction efforts. Within four weeks, Hayward Baker was on site working in joint venture with one of our competitors to provide the expertise and level of resources necessary for the project. Hayward Baker's work entailed the installation of high capacity tieback anchors through the existing World Trade Center

basement walls. The tieback anchors are necessary to support the basement walls against the exterior forces created by soil and groundwater as the debris from the collapsed structure is removed from the basement area. As a result of further work awarded in January 2002, Hayward Baker's work is likely to continue until late Spring of 2002 when recovery operations should conclude.

Another noteworthy project involved vibro work carried out as part of the high profile Pier 400 project at the Port of Los Angeles. The work involved extensive bottom feed vibro in two areas and dynamic compaction in a third. The effect of these ground improvement techniques was to mitigate the risk of damage during seismic events over a large area of reclaimed land originally created by backfilling with dredged sands or silts. This project was successfully completed in difficult soil conditions and within tight deadlines.

Case Foundation and Case Atlantic returned excellent results, with sales and operating profit both significantly ahead of the previous year.

During the year, Hayward Baker acquired the assets of Catoh, a New York State based regional market leader in speciality drilling, minipiles and earth retention. Catoh's drilling capabilities have proved very useful over recent years on numerous joint ventures with Hayward Baker, including a scheme last year to reinforce the visitors' observation platform at Niagara Falls. The addition of experienced field forces and drilling equipment is an advantage in Hayward Baker's north-east operations.

Case Foundation and Case Atlantic returned excellent results, with sales and operating profit both significantly ahead of the previous year. These results, which were reflected across virtually all business units, benefited from the commencement of delayed contracts and from good operating conditions in Case's segments of the North American market. In November 2001, Case opened a new office in Phoenix, Arizona, to serve the local client base.

Case was involved in several prestigious projects during the year, including the construction of a large diameter water intake shaft approximately one mile offshore in Lake Michigan. Among several successful projects in the north-eastern United States was one for the South Jersey Light Rail System, while in the mid-west Case installed the caissons for a new convention centre in Grand Rapids. In Charleston, South Carolina, Case Atlantic carried out piling work for two bridges and was awarded a significant contract for a two year project at the Cooper River Bridge, as part of the TEA21 federal infrastructure budget spend.

The Shedd Aquarium in Chicago, Illinois, was another key contract for Case, with both Case and Hayward Baker working over the past two years on this high profile lake-front museum, installing minipiles and soil nails and undertaking a significant earth retention project.

Borman Park, North America

Problem: In Gary, Indiana, a new water intake system, located one mile offshore, required an intake crib to be connected to a tunnel through the bedrock.

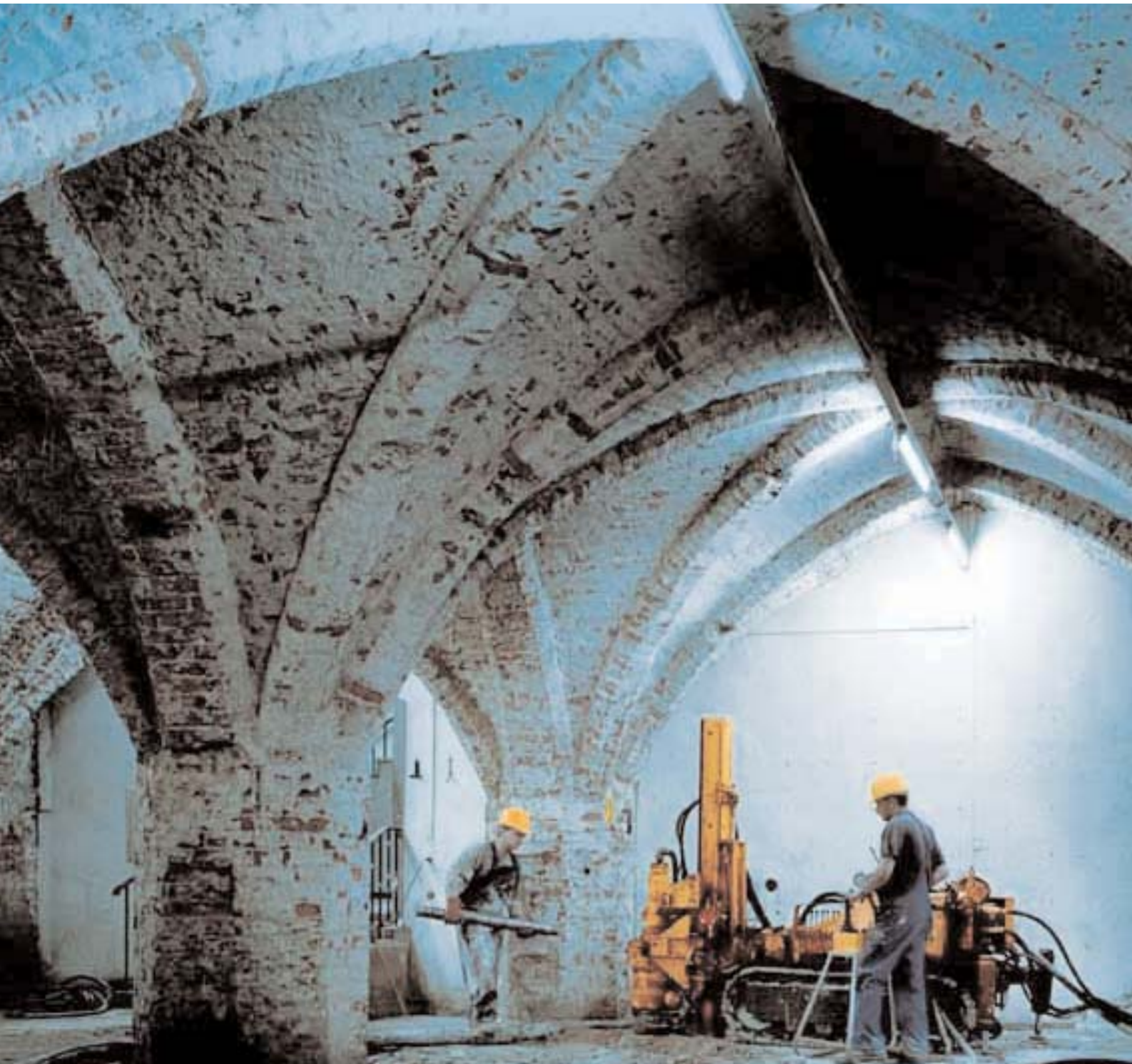
Solution: Case Foundation drilled an 11 foot diameter shaft through the lower bedrock and installed a steel liner to connect the tunnel to the intake crib. A drilling platform needed to be anchored to the lake bed, with two barges anchored alongside to support cranes and other equipment.



Alter Hof, Germany

Problem: One of the oldest buildings in Munich, the former residence of Germany's Wittelsbacher royal family, needed reconstruction after lying empty for 10 years. The age of the building and a restrictive working area added challenge to the task of strengthening the foundations.

Solution: Keller combined jet grouting columns and mini-piles to increase the bearing capacity of the existing foundations. Specially prepared drilling rigs, suitable for confined spaces, installed more than 190 Soilcrete columns and 24 mini-piles without affecting the integrity of the existing structure.



The broad spread of our operations and the mix of contracts protected us from the slowdowns experienced in parts of Europe and the Middle East.

Continental Europe and overseas

The European and overseas business achieved a good performance, despite difficult economic conditions in some of our markets. The broad spread of our operations and the mix of contracts protected us from the slowdowns experienced in parts of Europe and the Middle East.

Our German operations succeeded in increasing turnover by more than 12% whilst improving margins, thereby returning an encouraging result, in contrast to a 7% downturn in the construction sector. A strong performance was shown by our businesses in Poland and France, which are becoming well established. In France, we introduced piling as a product line to support our ground improvement services. Major contracts in France included one at Nice Airport, where Keller installed vibro stone columns to reduce the risk of liquefaction and increase the earthquake resistance of the proposed main terminal building and car parks. During the year we developed our Spanish business, undertaking four vibro contracts there in the second half of the year.

We were involved in a number of environmental schemes in Continental Europe, including a major groundwater improvement scheme in Bruck, Austria, requiring the decontamination of subsoil using horizontal jet grouting; the rehabilitation of a dam near Krakow in Poland; and, in the Rhein-Ruhr area of Germany, over 20 contracts for exploration drilling and cavity grouting of disused mines, to protect the local population from the collapse of unstable shafts and tunnels.

The year 2001 marked the first full year's contribution from both LCM, the Swedish provider of lime cement columns in which the Group has a 50% interest, and MTS, our Swiss regional specialist in anchors, micro piling and soil nailing, both acquired in the last quarter of 2000. LCM rebounded well after a slow start, to have a good full year and shows promise for the future, while MTS struggled to recover from adverse weather conditions early in the year.

Lime column contracts took the Group into Norway for the first time.

Outside Europe, the Far East performed well, particularly Malaysia and Singapore.

Keller, with some participation from LCM, is stabilising the soil beneath the realignment of a railway line in Malaysia, using stone and lime cement columns. The success of the project, together with similar joint ventures between LCM and the UK ground engineering business, demonstrates our good progress in transferring the newly acquired technology to other regions of the world. Furthermore, we commenced vibro work at Hong Kong's Container Terminal 9, marking a return to Hong Kong, after more than four years' absence from the city.

Operations in the Middle East were affected by difficult market conditions in the region. While our businesses in Saudi Arabia and Bahrain managed to turn in creditable results, Dubai and Egypt were less well able to withstand the impact of the slowdown. We also entered into co-operation agreements for vibro work in Turkey and for foundation works in Algeria, marking the start of a more active involvement in those regions.

Keller remains the market leader in the UK ground improvement subsector, which accounts for an increasing proportion of its work.

UK

The UK ground engineering market was relatively static during the year, with continued overcapacity in the foundations sector. However, Keller remains the market leader in the UK ground improvement subsector, which accounts for an increasing proportion of its work and where recent growth has come largely from an increase in the development of brownfield sites.

The ground engineering business had a slow start to the year, due to the very wet weather, which resulted in delayed contract starts. Activity picked up as the year progressed, however, the result was affected by costs associated with remedial works.

Significant projects included vibro stone column work at the port of Mostyn in North Wales and contract 320 at the Channel Tunnel Rail Link project, where vibro concrete columns were used to provide a stable working platform, allowing construction of a viaduct. Bored piling contracts included continuing jobs at Canary Wharf and a new hotel complex and associated development at West India Quay. The specialist grouting division benefited from a compaction and void filling grouting job at Reading, where previous mineworkings had threatened to cause severe settlement to local authority housing units. Here, a novel approach combining probe drilling,

injection grouting and compaction grouting provided a solution to undermining caused by cavities in the underlying chalk.

The specialist grouting division has also been working alongside our Swedish soil mixing contractor, LCM. The application of lime column technology for the first time in the UK is providing a solution to a near intractable problem at Hull docks, where foundations for a bund are being created on very soft marine alluvium in tidal conditions.

Through good co-operation across all divisions, the ground engineering business was able to offer packaged solutions, consisting of ground improvement and earthworks. In the current year we hope to accelerate the provision of complete enablement solutions for new and brownfield sites.

Kingston upon Hull, UK.

Problem: As part of a land reclamation scheme to extend the Port of Hull, a six metres high bund wall had to be constructed over tidal mud flats. Extremely soft underlying marine clays made the original construction method impractical and an alternative solution was sought.

Solution: In its first UK application, Keller offered the recently acquired Swedish dry soil mixing system. The method involves the mixing of cement powder directly into the soil to strengthen the underlying clays and enabled the successful construction of the bund wall.



Manly Apartments, Australia

Problem: A retaining structure was needed to support an adjacent six storey building on one boundary and to provide a water barrier for a two level basement car park. The site, next to the world famous Manly beach, had a permanent high water table.

Solution: A 600mm diameter retaining wall was installed to a depth of eight metres below the existing site level. Temporary soil anchors were used to control wall deflections and resist the high surcharge loadings. Franki Atlas piles were installed to provide structural support for the building.



Franki operations in Australia and Indonesia enjoyed a significant turnaround due, in part, to the restructuring carried out in 2000 and to a more stable business environment in Australia.

Australia

Franki operations in Australia and Indonesia enjoyed a significant turnaround due, in part, to the restructuring carried out in 2000 and to a more stable business environment in Australia.

The Indonesian operation performed particularly well, given the political uncertainty and fragile economy of the region, with activity steady throughout the year in each of its product lines.

Major contracts during the year included several major precast projects in the docklands precinct of Melbourne. Franki also entered into a joint venture with Vibropile for the foundations for one of the tallest residential buildings in the world – Grollo's Eureka Tower in Melbourne. This project, with the most complex foundations we have encountered on a building site in Australia, is nearing successful completion.

A common feature of contracts successfully completed during the year was the resolution of major foundation and logistical problems through effective communication and close co-operation with the client.

One such job was in the Pilbara region of Western Australia, where BHP Billiton operate a series of major iron ore mines. One of these, at Yandi, is located some 400km from the coastal shipping port of Port Hedland. The Yandi mine load-out facility had to remain operational during upgrading and only limited time windows were available for the work. Franki, together with the client, their consultants and the steel work contractor, devised a cost-effective solution which involved building a structure around the existing tunnel, whilst allowing loading operations to continue. A complex matrix of "what ifs" was drawn up, as no delay to the contract could be tolerated. Standby units of critical plant, such as drilling rigs and concrete batching plants, were required on site. Time was of the essence and the work was completed on time and to budget.

Specialist services

The results for specialist services include the full year for Makers and three months of Suncoast. Operating profit before goodwill amortisation was 32% ahead at £3.7m (2000: £2.8m) on turnover of £74.4m (2000: £47.6m).

Suncoast

On 1 October 2001, we completed the acquisition of Suncoast – a Houston based market leader in the design, fabrication and distribution of post-tension cable systems to the construction industry.

Post-tension cable systems are used to reinforce concrete foundations and structural spans, enhancing their load-bearing capacity by applying a compressive force to the concrete, once set. Post-tension technology has been used in North America since the mid 1960s and has been used increasingly in the residential and commercial construction markets. This trend has been driven by the cost savings in labour and materials and the enhanced design flexibility, compared with more traditional reinforcement methods. Post-tension reinforcement foundation slabs are particularly appropriate to the soil conditions found in Texas, California and Arizona, where Suncoast has developed its principal operations.

The market for post-tension reinforcement systems has seen significant growth. Annual growth rates in the use of post-tension

Looking ahead, the Suncoast business is well placed to take advantage of growth opportunities.

systems in the US residential market averaged 26% between 1990 and 2000, compared to only 4% annual growth rates in new house construction over the same period.

In 2001, 56% of Suncoast's sales came from the concrete foundation slabs market, primarily for use in the construction of single family homes. 24% of its business came from the commercial construction sector, relating to the use of concrete structural spans and beams in a wide range of concrete framed structures including hotels, sports stadia and parking garages.

Suncoast also offers a rebar design and supply package, either with Suncoast's post-tension systems, as part of a concrete reinforcement solution, or for use on a stand-alone basis. This complementary product area represented the balance of Suncoast's sales in 2001.

The Suncoast business has traditionally been seasonal, with a relatively quiet final quarter. Since its acquisition, the performance of Suncoast has been as anticipated. With historically low interest rates and a continuing strong level of housing starts in the United States, Suncoast's first full year's contribution in 2002 should be in line with our expectations at the time of acquisition.

Looking ahead, the Suncoast business is well placed to take advantage of growth opportunities

which are expected to come from the continued technology transfer in the concrete foundation slabs market; continued favourable demographics which support new housing demand in Suncoast's core markets; geographical expansion outside Suncoast's current core residential markets; increased penetration of post-tension systems in the commercial construction markets; and opportunities for consolidation within a highly fragmented post-tension industry.

Houston, North America

Problem: Increasingly, the commercial construction market in the United States is seeking ways to reduce material and labour costs and to increase design flexibility associated with structural spans, beams and floors in concrete frame, high-rise buildings.

Solution: Suncoast's post-tension systems involve the tensioning of cables which have been pre-placed in the concrete. Compared to traditional reinforcement methods, post-tensioned slabs are faster to install – saving on labour costs, stronger – allowing thinner slabs for the same strength, and allow longer spans – adding to design flexibility.



John Walsh and
Fred Wigg Towers, UK

Problem: The external refurbishment of these twin towers, as part of The London Borough of Waltham Forest's "Safe and Warm Policy", involved Makers treating concrete deterioration caused by an array of factors, including advancing carbonation, chloride attack and some poor structural detailing.

Solution: Systems and materials were selected to offer low maintenance and a 30-year design life. Makers' "best value" bid offered technically appropriate alternatives for the external wall insulation system and concrete repair solution, together with value engineering of the designs for the roof, rainscreen and replacement windows.



During 2001, the strategic aim was to consolidate and to strengthen the core business systems.

Makers

Over the five years since acquisition, Makers has seen a compound growth in sales of 24%. During 2001, the strategic aim was to consolidate and to strengthen the core business systems. This has created a strong platform from which to exploit the significant growth opportunities emerging across all its sectors.

Makers has benefited from a growing number of partnership arrangements, through which it has been able to secure long-term contracts at commercially acceptable rates. Our customers benefit from the reinvestment in training, information technology, supply chain management and customer care services, which together generate improved service delivery.

In social housing, Makers has won major contracts on partnering schemes with the London Boroughs of Westminster, Waltham Forest and Camden for the refurbishment of housing stock. Makers' growing reputation for quality and community care has enabled it recently to enter into a joint venture to deliver reactive maintenance services for part of a social housing complex in London's Westminster. This marks a first step into a new sphere of business. We believe the strong contracting skills and high customer focus within the business will make this a good strategic move into facilities management.

The relationship with BAA has matured and during the year Makers progressed a number of contracts to refurbish car parking facilities at Heathrow and Gatwick Airports. The success of this experience positions the business well to support local authorities and railway companies on similar projects in the future.

Makers has traditionally undertaken cladding work on an ad hoc basis. With an increase in demand for this type of construction, two business units were set up during the year to cover the national market. Makers' track record, skilled workforce and its relationships with materials suppliers mean that it is well placed to benefit from the growth in this sector.

A good performance was delivered by the AMS division, which showed improvements in all major business areas and a new business unit was set up during the year to supply services to communications companies upgrading mobile phone networks across the UK. The masonry division had success on a number of key contracts including St Paul's Cathedral, Norwich Cathedral and Norwich Castle.

Wannenwetsch

Since the year end, we have acquired a 49% stake in Wannenwetsch.

Wannenwetsch is Europe's leading supplier of robotic hydrodemolition services for precision concrete removal. Using high-pressure water jets guided by robotic carriers, Wannenwetsch's concrete removal process has been developed to suit operations where removal of concrete to a specific depth or length is required, without damage to the surrounding area of the structure. Typical applications, including the renovation of parking garages, bridges, tunnels, airport runways, wharfs and industrial plants, complement the services already offered by Makers in the concrete refurbishment market.

We shall continue to seek acquisition opportunities to broaden our offering of technical services to world markets.

Strategy

The performance of the Group in 2001 confirms that our strategy of maintaining global leadership in the core foundations businesses, while expanding our range of specialist services, continues to deliver benefits for the Company, its shareholders and its employees.

In further pursuit of this strategy, we shall continue to seek acquisition opportunities to broaden our offering of technical services to world markets. We shall focus our search principally on specialist services businesses within Europe, which offer strong growth prospects. Any such acquisitions will redress the balance between our North American operations, which currently account for some two-thirds of profits, and the rest of the Group. In addition, we will continue to enhance the geographical and technical coverage of our market leading foundations businesses through bolt-on acquisitions, where appropriate. We believe our strategy will continue to enhance value for shareholders.

Outlook

Building on the strong order books at the end of 2001, the current year has started well, with a record January order intake. In the foundations businesses, we expect to see some recovery of the German and Austrian markets and are encouraged by activity levels in the Far East, France and the Iberian Peninsula. In the UK, the business should benefit from an increase in infrastructure spending, in particular, related to the Channel Tunnel Rail Link project. In our North American foundations operations, underlying business fundamentals remain strong and order books are at a record high. The recovery seen last year in our Australian and Indonesian operations is expected to be sustained this year. Our specialist services operations will have the benefit of a full year's results from Suncoast and Makers is expected to prosper in a continuing buoyant repair and refurbishment market in the UK.

T Dobson Chief executive
6 March 2002

Eichenberger Curve, Germany

Problem: Following reunification of East and West Germany, infrastructure connections needed to be re-established. To reopen and extend the railway connection between Göttingen and Halle, the wall of a dam had to be strengthened to accommodate an underpass, without interrupting the operational railway.

Solution: Keller stabilised the wall of the dam, with a 35 degree slope, using fine cement grouting. This required the installation of specialist pipes into the slopes of the dam. A customised drilling rig was designed and built for the inclined working platform.





Financial review

Results

The segmental analysis of the results is shown on pages 40 and 41. Following the acquisition of Suncoast, an addition to our specialist services business, we have for the first time analysed our results by class of business in addition to geographic origin. In total, turnover increased by more than £100m to £422.2m, a rise of 35% in the year. The rise is substantially attributable to very strong volumes in our North American subsidiaries, full annual contributions from the bolt-on acquisitions made in 2000 and some £20.2m as a result of the Suncoast acquisition made in the last quarter of the year. The volume growth in the second half of the year was more than 40% compared to less than 30% in the first half of the year.

Operating profit before goodwill amortisation was £25.4m, representing an increase of 44% on the operating profit before goodwill amortisation and restructuring costs of £17.7m in 2000. 68% of this operating profit arose in the US and in total over 90% of the Group's operating profit originated outside of the UK. The average US Dollar and Euro exchange rates against Sterling strengthened by 5% and 2% respectively year on year, leading to a favourable impact on profits of £0.6m. The Suncoast acquisition contributed £1m to profits in the three months of ownership. Suncoast is a seasonal

business and earns the majority of its profits in the spring and summer months.

Operating margins vary widely across the Group reflecting the differing economic and competitive environments in which our subsidiaries operate. It is pleasing to note that Group operating margins increased by 0.3% to 6.0% in the year. The best operating margins continue to be returned by our US businesses although our European and overseas business maintained its operating margin above 5%.

Acquisitions

The Group made two acquisitions in the year both in the US. On 1 October, the net assets and business of Suncoast were purchased for a total cash consideration of £65.7m, including capitalised acquisition costs of £3.5m and the directors' estimate of deferred purchase consideration of £0.7m. The deferred purchase consideration is dependent upon the profits earned by Suncoast in the financial years to December 2003. The resultant goodwill arising on the acquisition of £49.5m is to be amortised over 20 years for accounting purposes. Catch was acquired by the Group on 20 November for a total cash consideration of £1.9m and in addition the Group discharged debt on completion of £1.2m. The goodwill arising on this acquisition was only £0.1m. There has been no adjustment

in the year to the goodwill arising on the acquisitions made in 2000.

Accounting standards

Three new accounting standards are applicable to the Group this year. Full compliance with FRS 17 on Retirement Benefits will not be mandatory for the Group until 2003, and only certain disclosure items are required in the notes to these financial statements. The adoption of FRS 18 on Accounting Policies has not had any impact on the Group. FRS 19 on Deferred Tax now requires full provision to be made for deferred tax. This represents a change in accounting policy and has therefore resulted in a prior year adjustment. As indicated in our Interim Statement, the charge to reserves brought forward at 1 January 2001 was £1.1m (1 January 2000: £0.8m) and the comparatives for 2000 have been adjusted accordingly. The Group has not adopted a policy of discounting deferred tax assets or liabilities.

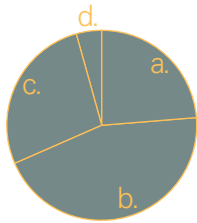
Capital and reserves

The Group increased its total net assets by some £15.6m in the year to £73.3m. Of this, £7.9m was attributable to retained earnings, and £0.3m was due to the increase in minority interests. The effect of retranslating assets denominated in currencies other than Sterling at year end rates was adverse by £0.5m. In addition, in December 2001, a placing of 2,840,750 ordinary shares, being 5% of the share capital, was

Turnover by area (£m)

- a. UK 100.1
- b. Americas 188.8
- c. Continental Europe and overseas 115.0
- d. Australia 18.3

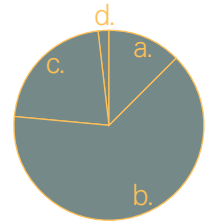
+35%



Operating profit by area (£m)*

- a. UK 3.4
- b. Americas 17.4
- c. Continental Europe and overseas 5.9
- d. Australia 0.5

+41%



*Excludes amortisation of goodwill of £1.3m and unallocated central costs of £1.8m

undertaken at a share price of £2.85 per share, which increased the capital base of Keller by £7.9m net of expenses. With the exception of shares under option, this was the first issue of shares since the Group's flotation in 1994 and the proceeds were used to partly repay debt in the UK and provide the resources for further bolt-on acquisitions. To this end, in January 2002, a 49% investment of £1.3m was made in Wannewetsch, a German concrete repair business.

As a result of increased debt levels taken on at low interest rates the weighted average cost of capital of the Group has been reduced.

Taxation

The effective tax rate for the year was 38.8%, an increase of 1.3% on the restated effective rate for 2000. The reason for this increase is the greater proportion of profits being earned in the US where the combined federal and state effective tax rates averaged some 39.5%.

Cash flow and net debt

Operating cash flows in 2001 improved strongly over 2000 at £32.2m compared to £19.6m. The increase in profit was the main reason for this 64% improvement. Management of working capital, particularly in the last quarter of the year, was very good resulting in no change year on year even though there was an increase in annual sales of £109m. Both debtor and creditor levels increased in line with activity. In order to support the

large increase in sales, the Group has continued to invest in specialised equipment with capital expenditure of £11.5m, which was 1.6 times depreciation compared to a ratio of 1.5 times in 2000 on capital spend of £9.8m.

Net debt at the end of 2001 was £63.2m compared to £9.6m at the end of 2000. This large increase was due to the financing of the Suncoast acquisition which was funded entirely by debt. Although this gives rise to a year end gearing level of 86% compared to 17% last year, the Group's central banking agreement does not contain a gearing covenant. The vast majority of year end debt is denominated in US Dollars which matches the profile of the Group's profit streams. Interest rates across the Group fell in 2001, most noticeably in the US, to give interest rates which are at historically very low levels. However, in order to give a degree of certainty going forward, interest rate swaps have been entered into for three years at 3.89% on \$43.6m of US Dollar denominated debt and at 5.15% on £8m of Sterling denominated debt, excluding bank margin. On a full year pro forma basis, assuming Suncoast had been owned and financed for the whole of 2001, the Group's net interest cover based on EBITDA was 7.8 times, comfortably within the banking covenant which has been set.

In order to finance the Suncoast acquisition, a new central banking facility was entered into which

provided a five year amortising term loan of \$70m and a five year revolving credit facility of £40m, of which £23.9m was undrawn at the year end. In addition to this central facility, there is a £12.5m 364-day working capital facility and a number of other bilateral facilities between our subsidiaries and local financial institutions around the world. The Group's management of financial risks is described on page 24.

Earnings and dividends

As a result of good performances from all of our subsidiaries which have a minority shareholder, the total minority interest charge increased by £0.4m in the year. The weighted average number of ordinary shares increased by 111,000 over last year as result of the exercise of share options and the effect of the placing in December. The basic earnings per share of 23.6p was 36% ahead of last year whilst the earnings per share before goodwill amortisation of 25.8p, which the Group believes is a better indication of true performance, was 44% ahead of last year. The total dividend for the year of 9.2p is 2.6 times covered by basic earnings per share and 2.8 times covered by adjusted earnings per share.

J R Atkinson Finance director
6 March 2002



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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 64.

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 59.

3 J R Atkinson Finance director. Joined the Group in 1990. Group financial controller from 1995-99. Appointed finance director in 1999. Aged 41.

4 E G F Brown Non-executive director. Appointed to the board on 13 December 2001. Member of the Remuneration and Audit Committees. From 1998 to 2000 Mr Brown was chairman of Mainland Europe for Tibbett & Britten Group plc. He was previously an executive director of TDG plc and operations director of Exel plc. He is a non-executive director of Quintiles Transnational Corporation, Vantec Ltd and C H Jones Ltd. Aged 57.

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 74.

6 R T Scholes Non-executive director. Appointed to the board on 7 February 2002. Member of the Remuneration and Audit Committees. Mr Scholes was a director at Dresdner Kleinwort Wasserstein from 1986 to 2001. He is a non-executive director of British Vita PLC and Bodycote International Plc and was formerly a non-executive director of RCO Holdings PLC. Aged 56.

7 K F Payne Non-executive director. Appointed to the board in 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. Aged 59.

8 Dr K Bond Non-executive director. Appointed to the board in 1999. Chairman of the Remuneration Committee, a member of the Audit Committee and senior independent non-executive director. Appointed president of Earth Technologies Inc, Europe, in 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 51.

Executive committee

T Dobson Chief executive.
Keller Group plc

J R Atkinson Finance 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 50.

Dr A L Bell Managing director, Keller Ground Engineering. Joined the Group in 1984. Appointed director, Keller Colcrete in 1987 and director, Keller Ltd in 1990. Managing director, Keller Ground Engineering since 1998. Aged 51.

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 in 2001. Aged 51.

P W Davis Appointed chief operating officer, Suncoast Post-Tension L.P. in 2001. Joined the Group in 1979. Appointed executive vice president, Case Foundation Company, 1994 and director, Keller Australia Pty Ltd since 1998. Aged 53.

A D Hammond Managing director, Makers UK Ltd. Joined the Group in 1996 with the Makers acquisition and subsequently appointed director, Eastern Region. Appointed managing director in November 2001. Aged 41.

Directors' report

The directors present their annual report, together with the audited accounts for the year ended 31 December 2001.

Principal activities

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

Business review

A review of the Group's progress and prospects may be found on pages 3 to 18.

Results and dividends

The results for the year, showing a profit before taxation of £22,393,000 (2000: £15,447,000), are set out on page 34. The directors recommend a final dividend of 6.05p per share to be paid on 31 May 2002, to members on the register at the close of business on 3 May 2002. An interim dividend of 3.15p per share was paid on 31 October 2001. The total dividend for the year of 9.2p (2000: 8.5p) will amount to £5,401,000 (2000: £4,829,000).

Post balance sheet event

Since the year end, the Group has announced the acquisition of 49% of Wannewetsch GmbH Hochdruckwassertechnik – Germany's leading supplier of robotic hydrodemolition services for use in concrete refurbishment – for a total cash consideration of £1.3m.

Directors

The names and biographical details of the directors who hold office at the date of this report are given on page 22. All served throughout the year, with the exception of Mr E G F Brown and Mr R T Scholes, who were appointed as non-executive directors on 13 December 2001 and 7 February 2002 respectively. In addition to the current directors, Mr M W C Martin served as a director throughout the year, retiring on 31 December 2001.

Retirement and re-election

Dr H Peipers and Dr K Bond retire by rotation at the Annual General Meeting and will not stand for re-election. Mr E G F Brown and Mr R T Scholes, who were appointed since the last Annual General Meeting, retire in accordance with the Articles of Association and, being eligible, offer themselves for election.

Details of the directors' service contracts are contained in the remuneration report, together with details of their remuneration and benefits and their interests in the shares of the Company.

Substantial shareholdings

At 6 March 2002, the Company had been informed of the following interests in the Company's issued ordinary share capital:

	Number of shares held	Percentage of issued share capital
Schroder Investment Management Ltd	9,846,456	16.5
Deutsche Bank AG	8,162,626	13.7
Standard Life Investments Limited	3,309,715	5.5
Legal & General Investment Management Ltd	2,724,279	4.6
Prudential Corporation	2,382,333	4.0
Dr J M West	1,948,000	3.3

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.

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 continually to develop new and more effective methods of solving problems of ground behaviour. Most of the specialised equipment we use 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 2001 the principal value of forward exchange contracts amounted to £1,700,000 (2000: £3,000,000).

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

Interest rate risk

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

In addition, fixed interest rates are achieved on approximately two-thirds of central banking facility borrowings by the use of swaps.

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

This is the subject of a separate report on pages 31 and 32 which details the Company's compliance with the Combined Code on Corporate Governance, now incorporated into the Financial Services Authority's Listing Rules. The Remuneration report is set out on pages 28 to 30.

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 2001 the Group had 69 days' (2000: 81 days') purchases outstanding.

Political and charitable contributions

No contributions were made to any political party during the year. Donations made by the Group in the UK for charitable purposes were £2,000 (2000: £3,000).

Social responsibility

The Group's approach to employee involvement, disabled persons, health and safety and the environment are discussed in the social responsibility report on pages 26 and 27.

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 in the Notice of Annual General Meeting.

Resolution number 7 – Scrip dividends

Article 162 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 conclusion of the next Annual General Meeting.

Resolutions numbered 8 and 9 – Authority to allot shares

Under the Companies Act 1985 (the "Act"), the directors of the Company may only allot unissued shares if authorised to do so under Section 80 of the Act. Section 89 of the Act also prevents allotments for cash, other than to existing shareholders in proportion to their existing holdings, unless the directors are specifically authorised. This gives existing shareholders what are known as "pre-emption rights". The Articles of Association give a general authority to the directors to allot unissued shares and disapply these

pre-emption rights. Passing resolutions 8 and 9 will extend the directors' flexibility to act in the best interests of shareholders, when opportunities arise, to issue new shares.

The directors will be able to issue new shares up to a nominal value of £1,989,365, which is equal to approximately 33.3% of the issued ordinary share capital at 6 March 2002.

The directors will also be able either to issue shares for cash, other than to existing shareholders in proportion to their existing holdings, up to a maximum nominal amount of £298,405, representing about 5% of the issued ordinary share capital at 6 March 2002 or, other than for cash, in a rights issue.

These arrangements are intended to ensure that the interests of existing shareholders are protected so that, for example, in the event of a share issue which is not a rights issue, the proportionate interests of existing shareholders could not, without their agreement, be reduced by more than 5% by the issue of new shares for cash to new shareholders.

The board has no current plans to allot ordinary shares except in connection with the executive share option arrangements.

The authority sought by resolutions 8 and 9 will expire at the conclusion of the next Annual General Meeting but could be varied or withdrawn by agreement of shareholders at an intervening general meeting.

Resolution number 10 – 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 at the conclusion of the next Annual General Meeting. 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 F Holman Secretary
6 March 2002

Social responsibility

Environment

Bringing benefits to the environment

Many of the solutions delivered by Keller are intrinsically beneficial to the environment, including land reclamation schemes, soil erosion control, flood control, decontamination or containment of contamination and preparation of brownfield sites.

At Great Orton in Cumbria, Keller was employed during the year to assist in the design and build of a sealed foot-and-mouth disposal pit for DEFRA. Less high profile, but just as significant in terms of environmental benefits, are the many smaller, brownfield sites where Keller is regularly involved in bringing derelict land back into use. In the UK, these included a site clean-up at Bristol, including the removal of contaminated soils and treatment of contaminated ground water; the construction of a slurry cut-off wall to enhance protection to a site of special scientific interest in Peterborough; and remedial works at a former gasworks site at Portadown. In Europe, Keller Grundbau used horizontal jet grouting to decontaminate subsoil, as part of a groundwater improvement scheme in Bruck, Austria, and in Slovakia and Poland we have installed miles of barriers in river dykes to prevent flooding. At Niagara Falls in North America, we sealed leaks in sewerage systems which prevented water entering the systems, thus reducing the volume of sewerage requiring treatment.

During the year, Keller continued its support for various environmental research projects. These included research into sustainable construction, through its sponsorship of a Queen's University, Belfast, Ph.D programme. The Group is represented on the Industrial Advisory Board of the QUESTOR centre (Queen's University Environmental Science and Technology Research Centre) and, in partnership with the Environmental Agency, the QUESTOR centre and others, Keller is involved in the development of permeable reactive barriers.

Our specialist services business, Makers, is working with local authorities and housing associations across the UK on the structural refurbishment of social housing, much of which was constructed in the 1960s and 1970s. As an alternative to demolition and rebuild, these projects are resource efficient and have fewer environmental impacts. In addition, they invariably bring thermal efficiency benefits, resulting in reduced energy consumption.

Environmental management systems

Notwithstanding the positive impacts of many of the schemes in which we are involved, we do recognise that many of our site activities have environmental effects. Most notably, these involve noise, dust and slurry emissions and the use of specialist products, such as grouts. We have a continuous programme of trying to mitigate these impacts by, for example, selecting new plant with reduced noise emissions, researching the viability of new, more benign materials and seeking better ways of capturing waste from drilling.

Our environmental management systems are not uniform across the Group. Our businesses, which have their own environmental policies, have each adopted a system that reflects local regulations, culture and business needs. Because of the differences in local conditions, we do not believe in imposing a "one size fits all" solution, but we do encourage a regular and open debate on environmental issues at the quarterly meetings of our Executive Committee to identify and, where appropriate, share best practice.

During the year, our UK businesses tested revised environmental management systems. These are now being integrated into more mature health and safety and quality assurance management systems. Both UK businesses have identified measurable targets, against which they will report in the current year. Makers intends to introduce an independent audit of its environmental system by 2003, with the aim of achieving ISO14001 accreditation.

Progress in developing environmental management systems in our UK businesses is ahead of other parts of the Group, mainly because of the business drivers which do not yet apply to the same degree elsewhere. However, as a UK based plc, we are committed to improving our environmental record in whichever part of the world we are operating. To this end, we plan to introduce during 2002 a system of reporting progress against environmental issues throughout the Group. Our emphasis will be on identifying targets which are appropriate to local conditions and are recognised by local government agencies as bringing benefits to the community.

Working with the community

Most projects in which Group companies are involved are located in remote areas away from local populations and therefore, there is usually little impact on, or relationship with, a local community. For most of our businesses, support for local community projects is indirect – by, for example, sponsoring or supporting the efforts of employees who are involved in charitable or community projects. At Hayward Baker, for example, this means a dollar-for-dollar matching of employees' charitable donations.

A notable exception to this is Makers which, through its social housing refurbishment schemes, has significant interfaces with residents and community groups. Makers prides itself in having an effective dialogue with residents, which includes the distribution of site brochures, in four different languages in some cases, to advise residents on how they will be affected by the works. Typical community projects in which Makers gets involved include planting trees to mark the completion of a project and giving talks to local school children on the dangers of entering a construction site.

Health and safety

As with environmental management systems, there is no single health and safety management system across the Group, as each business is subject to different safety standards and regulations. There is, however, a strong safety culture within all the businesses, which means that safety features high on the senior management agenda, safety training at all levels is taken very seriously and, on the ground, significant resources are dedicated to inspecting job sites for potential hazards and giving on site "tool-box talks" to ensure that safety awareness governs the daily work activities.

In North America, a company's safety record, relative to other businesses, is measured through the experience modification rating (EMR). A low score indicates a good safety record. The EMR for Hayward Baker and Case is 0.73, against an industry standard rating of 1.00. This reflects the effort and resources which are dedicated to improving safety performance. Both Hayward Baker and Case have full-time, dedicated safety professionals as well as regional safety officers and operate schemes through which employees are incentivised to come up with new ways of improving safety.

The key safety objective for our Franki operations in Australia is to achieve zero lost time injuries (LTIs) – that is, an injury that causes the employee to be away from work for the shift following the shift in which the injury occurred. LTIs numbered ten in 2001, the same level as the previous year, despite a 3% increase in the number of employees. The number of lost days, number of occurrences, incident rate and frequency rate were all down on the previous year, whilst the severity rate, calculated as work days lost per occurrence, was only slightly up.

In our Continental Europe and overseas operations, a procedure for on-site health and safety was introduced in January 2001 as part of a quality management system. In addition, operating units are required to respect and comply with all local regulations. To the extent feasible, training courses are held on a regular basis in order to improve risk awareness on site. Each business unit employs a safety officer, either on a full or part-time basis, according to the business need and local regulations. Performance is monitored by the divisional head office in Germany and compared to international standards. Rates of sick leave remain below the industry average. As a trend, it is apparent that the number of accidents on site declined in 2001 compared with the previous year. In view of the newness of the safety management system, a full year on year comparison of accident rates is not possible this year, but will be reported in future years.

In the UK, Makers recorded a reduction in the total number of accidents reported through the accident reporting procedure to 114 (2000: 127). The number of accidents reported to the Health & Safety Executive ("HSE") showed little change at 14 (2000: 13). However, there has been a shift in the type of accidents reported, with the number of reportable accidents involving members of the public reducing from three to one and reportable accidents involving employees increasing from ten to 13. This is set against a 15% increase in the average number of employees. As the accident frequency rate (AFR) and accident incident rate (AIR) do not include reportable accidents to members of the public, the shift in reportable accident type has had an adverse effect on these statistics, with an AFR of 1.05 (2000: 0.93) and an AIR of 2,174 (2000:1,927). Keller Ground Engineering recorded an AFR of 12.5 (2000:14) and an AIR of 2,991 (2000:3,363). There were no HSE prosecutions brought against either of the UK businesses in 2001 and there are none pending.

Employees

Throughout the year our businesses continued to use a variety of media and forums for communicating with their employees including company newsletters, consultative councils, results presentations, suggestion schemes and informal channels, such as company-wide social events.

In addition to job-specific and safety training, in which considerable resource is invested by all our businesses, the Group has a three-tier management development programme. It comprises basic modules, which are offered locally in the main centres of operation; a strategic programme offered each year to some 20 managers from across the Group; and the further development of individuals at, or just below, board level through executive programmes at Insead and Harvard business schools.

It is our policy to employ and train disabled people wherever their skills and qualifications allow and when suitable vacancies are available. Disabled employees are encouraged to undertake training and career development to prepare them for promotion. Should existing employees become disabled, every effort is made to find appropriate work and training if appropriate.

Remuneration report

The principal function of the Remuneration Committee (the "Committee") is to agree with the board the framework and policy for the remuneration of the Group's executive management and to determine, on behalf of the board, the remuneration packages of the executive directors. The composition of the Committee is given on page 31. 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. During the year, the Committee sought 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 determining all elements of directors' remuneration including, in particular, basic salary, annual bonus, long term incentives and other benefits.

In light of the significant changes in the business over the past year, the Committee has commissioned a fundamental review of executive remuneration using independent advisers. The review will compare all elements of remuneration against a comparator group of similar businesses, having regard to size and geographic spread.

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 subject to 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 Company has an Inland Revenue approved executive share option scheme which was established in 1994 ("the 1994 Scheme"). It reflects both the joint guidance note issued by the Association of British Insurers and the National Association of Pension Funds and statutory and listing requirements.

During the year, shareholders approved a new Inland Revenue approved executive share option plan ("the Approved Plan") and an unapproved share option plan ("the Unapproved Plan"). These were intended to replace the 1994 Scheme, the rules of which no longer reflected best practice. Since the adoption of the Approved and Unapproved Plans, no new options have been granted and it is the intention that no further options will be granted under the 1994 Scheme.

Under the Approved Plan, the total market value of shares at the date of grant over which any participant may be awarded options is £30,000. At any time, the total number of shares over which options may be granted (under all share option arrangements of the Company) must not in any consecutive 10 year period exceed 10% of the issued ordinary share capital.

It is currently the intention to grant options annually under these plans. The rules of the plans provide that, except in exceptional circumstances, in any 12 month period, a participant may not be granted options over shares (under all share option arrangements of the Company) having a market value in excess of his or her gross remuneration (excluding bonuses and benefits in kind) in that 12 month period. In exceptional circumstances, such as the need to recruit a key executive, this individual limit may be exceeded.

Options granted under the plans are subject to the Company achieving average annual growth in earnings per share over at least three consecutive years of not less than 4% above the increase in the retail price index. This is a significantly more demanding performance criterion than that which applied under the 1994 Scheme.

Options granted under the plans must normally be exercised within the period of three to ten years after the date of grant. In normal circumstances, options may only be exercised if the option holder is an employee or director of the Group at the date of exercise. Exceptionally, options may be exercised earlier than three years, where employment ceases other than on a voluntary basis or dismissal.

The Keller Group plc Deferred Annual Bonus Scheme ("the DABS 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 its rules. No further awards will be granted under the DABS Scheme but in all other respects the provisions of the DABS Scheme remain in force with regard to awards that have already been granted. The operation of the DABS Scheme was subject to the discretion of the Committee and the executive directors of the Company. Participants in the DABS 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 on 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.

Once the matched shares have unconditionally vested, participants may sell their deferred shares and matched shares at any time. Alternatively, they have the opportunity to earn additional matched shares at the rate of one additional matched share for every five shares retained for a further two year 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 form part of a participant's pensionable salary.

Share purchases in relation to the DABS 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 30 under directors' interests in long term incentive plans.

A share appreciation rights scheme also exists. It was introduced primarily to enable overseas executives to be granted comparable incentives to those available to their UK colleagues under the 1994 Scheme. There is currently no intention to use the share appreciation rights scheme.

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

(iv) Other benefits

Other benefits for executive directors include a car and payment of its operating expenses and fuel, entitlement to a private health care scheme and pensions as detailed below.

(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 J R Atkinson is terminable on one year's notice by the employer. 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' emoluments

	Basic salary 2001 £000	Fees 2001 £000	Benefits 2001 £000	Annual bonus 2001 £000	Total emoluments 2001 £000	Total emoluments 2000 £000
Executive						
J R Atkinson	120	–	12	48	180	118
T Dobson (highest paid director)	233	–	49	93	375	250
K Kirsch	–	–	–	–	–	180
M W C Martin	117	–	6	26	149	137
Non-executive						
Dr K Bond	–	20	–	–	20	20
E G F Brown	–	–	–	–	–	–
K F Payne	–	20	–	–	20	20
Dr H Peipers	–	20	–	–	20	15
Dr J M West	67	–	14	–	81	80
	537	60	81	167	845	820

Directors' shareholdings

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

	At 31 Dec 2001 Ordinary shares	At 31 Dec 2000 Ordinary shares
J R Atkinson	24,134	24,134
T Dobson	898,000	898,000
M W C Martin	954,000	954,000
K F Payne	3,808	–
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 6 March 2002.

Directors' pension rights

J R Atkinson, M W C Martin and Dr J M West are all members of the Keller Group Pension Scheme. This scheme provides a lump sum death in service benefit and pensions for dependants on death in service or following retirement. 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, having retired on 31 December 2001 at age 60, will be eligible for a pension of two-thirds of final pensionable salary. Dr J M West, having retired in 1997, received a pension of £131,000 in 2001.

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 2001 in respect of T Dobson were £12,200 (2000: £9,600).

	Age at 31 Dec 2001	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 2001 £000
J R Atkinson	41	2	7	40	25
M W C Martin	60	–	3	66	78

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 2001 Number	Awards made in the year Number	Awards at 31 December 2001 Number
J R Atkinson	11,557	–	11,557
T Dobson	30,310	–	30,310
M W C Martin	10,235	–	10,235

As mentioned on page 28, the Deferred Annual Bonus Scheme was terminated on 21 June 2000. No awards were therefore made in relation to the year ended 31 December 2000 and none will be made in relation to the year ended 31 December 2001.

Share option arrangements

All share options granted under the 1994 Scheme were granted on 26 April 1995. All share options granted under the Unapproved Plan were granted on 14 May 2001.

	At 1 January 2001 Number	Granted in 2001 Number	Exercised in 2001 Number	At 31 December 2001 Number	Exercise price Pence
Share options					
J R Atkinson					
1994 Scheme	14,800	–	–	14,800	102.0
Unapproved Plan	–	25,000	–	25,000	231.5
T Dobson					
1994 Scheme	80,000	–	–	80,000	102.0
Unapproved Plan	–	50,000	–	50,000	231.5
	94,800	75,000	–	169,800	

The market price of the shares at 31 December 2001 was 278p and the range during the year was 164.5p to 306.5p. Under the 1994 Scheme, 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 2% per annum above the increase in the Retail Price 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
6 March 2002

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 until new Articles of Association were adopted at the 2001 Annual General Meeting.
- (ii) Not all directors had service contracts of one year or less. Mr M W C Martin, who retired as a director on 31 December 2001, had a service agreement terminable on two years' notice by the employer. From that date, no director has had a service agreement with the Company terminable on more than one year's notice by the employer. Directors' service contracts are detailed on page 29.

Directors

The board comprised three executive and four non-executive directors until Mr E G F Brown was appointed on 13 December 2001, increasing to five the number of non-executive directors. When Mr M W C Martin retired on 31 December 2001, the board comprised two executive and five non-executive directors. Dr K Bond, Mr K F 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 during the year being Mr K F 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.

Directors' remuneration

The Remuneration Committee is chaired by Dr K Bond, the other members during the year being Mr K F Payne and Dr H Peipers, all of whom are independent of management. This Committee is responsible for agreeing with the board the framework and policy for the remuneration of the Group's executive management and for determining the remuneration packages of the executive directors. The remuneration for the non-executive directors is determined by the board. The Remuneration Report is set out on pages 28 to 30.

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, 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 non-executive directors and is chaired by Mr K F 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.

During the year, the committee considered the need for an internal audit function. The Committee concluded that the nature of the business risks and the effectiveness of existing controls were such that an internal audit function was unlikely to add value.

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. The performance of contracts is monitored by each operating division on a weekly basis.

(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.

Independent auditors' report

to the members of Keller Group plc

We have audited the financial statements on pages 34 to 55.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 32 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 1985. 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 31 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 2001 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

Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB
6 March 2002

Consolidated profit and loss account

for the year ended 31 December 2001

	Note	2001 Continuing operations £000	2001 Continuing operations Acquisitions £000	2001 Continuing operations Total £000	Restated 2000 Continuing operations Total £000
Turnover	2	401,749	20,499	422,248	312,954
Operating costs	3	(377,919)	(20,151)	(398,070)	(296,747)
Operating profit before amortisation of goodwill and restructuring costs		24,449	980	25,429	17,706
Amortisation of goodwill		(619)	(632)	(1,251)	(322)
Restructuring costs		–	–	–	(1,177)
Operating profit	2	23,830	348	24,178	16,207
Net interest payable	5			(1,785)	(760)
Profit on ordinary activities before taxation	2			22,393	15,447
Taxation	6			(8,684)	(5,791)
Profit on ordinary activities after taxation				13,709	9,656
Equity minority interests				(342)	140
Profit for the financial year				13,367	9,796
Dividends paid and proposed	7			(5,401)	(4,829)
Retained profit for the financial year	20			7,966	4,967
Basic earnings per share	8			23.6p	17.3p
Earnings per share before amortisation of goodwill	8			25.8p	17.9p
Diluted earnings per share	8			23.4p	17.2p
Diluted earnings per share before amortisation of goodwill	8			25.6p	17.8p

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 2001

	Note	2001 £000	Restated 2000 £000
Profit for the financial year		13,367	9,796
Currency translation differences on overseas investments	20	(555)	1,617
Tax effect of currency translation differences		–	39
Total recognised gains and losses relating to the year		12,812	11,452

The notes on pages 38 to 55 form part of these accounts.

Consolidated balance sheet

as at 31 December 2001

	Note	2001 £000	Restated 2000 £000
Fixed assets			
Positive goodwill	9	60,752	12,510
Negative goodwill	9	(105)	(209)
		60,647	12,301
Other intangible assets	10	372	395
Intangible assets		61,019	12,696
Tangible assets	11	59,277	50,788
Investments	12	–	–
		120,296	63,484
Current assets			
Stocks	13	12,466	7,026
Debtors	14	120,318	91,111
Cash at bank and in hand	25	12,209	13,568
		144,993	111,705
Creditors: amounts falling due within one year	15	(129,143)	(92,740)
Net current assets		15,850	18,965
Total assets less current liabilities		136,146	82,449
Creditors: amounts falling due after more than one year	16	(56,825)	(17,242)
Provisions for liabilities and charges	17	(6,046)	(7,579)
Net assets	2	73,275	57,628
Capital and reserves			
Called up share capital	19	5,968	5,681
Share premium account	20	22,202	14,545
Capital redemption reserve	20	7,629	7,629
Profit and loss account	20	36,472	29,061
Equity shareholders' funds	21	72,271	56,916
Equity minority interests		1,004	712
		73,275	57,628

These accounts were approved by the board of directors on 6 March 2002 and signed on its behalf by:

J M West Chairman
J R Atkinson Finance director

The notes on pages 38 to 55 form part of these accounts.

Consolidated cash flow statement

for the year ended 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Net cash inflow from operating activities	22		32,187		19,558
Returns on investment and servicing of finance					
Interest received		482		664	
Interest paid		(1,951)		(1,224)	
Interest element of finance lease rental payments		(71)		(82)	
Finance costs of new bank loans		(1,646)		(172)	
Payments to minority interests		(115)		(184)	
			(3,301)		(998)
Taxation					
UK corporation tax paid		(505)		(821)	
Overseas tax paid		(7,732)		(5,014)	
			(8,237)		(5,835)
Capital expenditure					
Purchase of intangible fixed assets		(72)		(119)	
Purchase of tangible fixed assets		(11,385)		(9,779)	
Sale of tangible fixed assets		1,223		1,040	
			(10,234)		(8,858)
Acquisitions and disposals					
Acquisition of subsidiary undertakings		(67,343)		(9,058)	
Net cash acquired with subsidiary undertakings		13		271	
			(67,330)		(8,787)
Equity dividends paid					
			(5,000)		(4,571)
Net cash outflow before use of liquid resources and financing					
			(61,915)		(9,491)
Management of liquid resources					
Repayments from short term bank deposits			947		2,978
Financing					
Issue of new shares		7,944		41	
New bank loans drawn		62,153		9,868	
Repayment of bank loans and loan notes		(18,407)		(4,211)	
Sale and leaseback transactions		887		–	
Capital element of finance lease rental payments		(396)		(307)	
Net cash inflow from financing			52,181		5,391
Decrease in cash in the year	23		(8,787)		(1,122)

The notes on pages 38 to 55 form part of these accounts.

Company balance sheet

as at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Investments	12	22,846	19,846
Current assets			
Debtors*	14	44,102	28,509
Cash at bank and in hand		2,702	3,831
		46,804	32,340
Creditors: amounts falling due within one year	15	(9,201)	(8,333)
Net current assets*		37,603	24,007
Total assets less current liabilities		60,449	43,853
Creditors: amounts falling due after more than one year	16	(18,145)	(8,755)
Net assets		42,304	35,098
Capital and reserves			
Called up share capital	19	5,968	5,681
Share premium account	20	22,202	14,545
Capital redemption reserve	20	7,629	7,629
Profit and loss account	20	6,505	7,243
Equity shareholders' funds		42,304	35,098

*Debtors and net current assets include debtors recoverable after more than one year of £29,302,000 (2000: £12,536,000).

These accounts were approved by the board of directors on 6 March 2002 and signed on its behalf by:

J M West Chairman

J R Atkinson Finance director

The notes on pages 38 to 55 form part of these accounts.

Notes to the accounts

1 Principal accounting policies

(a) Basis of accounting

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

The Group has implemented FRS 19 – Deferred Tax which has given rise to a prior year adjustment, details of which are set out in note 30. 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 £13,367,000 a profit of £4,663,000 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.

These valuations are based upon estimates of the final expected outcome of contracts and the proportion of work which has been completed.

(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.

The rates of depreciation used were:

Buildings	2%
Long life plant and equipment	8.33%
Computers	33.33%
Short life plant and equipment	12.5%
Commercial vehicles	25%
Other motor vehicles	25%

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.

(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.

1 Principal accounting policies continued

(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

Except where otherwise required by accounting standards, full provision, without discounting, is made for all timing differences which have arisen but not reversed at the balance sheet date.

(m) Pensions

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

(n) Goodwill and intangibles

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

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

Positive goodwill and negative goodwill arising prior to 1 January 1998 were taken directly to reserves in the year in which they arose. Such positive goodwill and negative goodwill have 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 they relate.

Intangible assets, other than goodwill, which are purchased, such as licences, 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:

	2001	2000
US Dollar: average for year	1.44	1.52
US Dollar: year end	1.45	1.49
Australian Dollar: average for year	2.79	2.61
Australian Dollar: year end	2.84	2.67
Euro: average for year	1.61	1.64
Euro: year end	1.64	1.59

2 Segmental analysis

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

	2001 Continuing operations £000	2001 Continuing operations Acquisitions £000	2001 Continuing operations Total £000	2000 Continuing operations Total £000
Turnover				
Class of business				
Foundations	347,549	277	347,826	265,322
Specialist services	54,200	20,222	74,422	47,632
	401,749	20,499	422,248	312,954
Geographical origin				
United Kingdom	100,130	–	100,130	91,021
The Americas	168,262	20,499	188,761	110,063
Continental Europe and overseas	115,008	–	115,008	97,689
Australia	18,349	–	18,349	14,181
	401,749	20,499	422,248	312,954
Operating profit				
Class of business				
Foundations	23,191	25	23,216	15,394
Specialist services	2,439	323	2,762	2,411
	25,630	348	25,978	17,805
Geographical origin				
United Kingdom	3,167	–	3,167	3,411
The Americas	15,996	348	16,344	9,692
Continental Europe and overseas	5,820	–	5,820	4,886
Australia	647	–	647	(184)
	25,630	348	25,978	17,805
Unallocated central costs			(1,800)	(1,598)
			24,178	16,207
Net interest payable			(1,785)	(760)
			22,393	15,447

The amortisation of goodwill (2000: together with restructuring costs of £1,177,000) has been analysed by geographical segment as follows: United Kingdom £288,000 (2000: £937,000), The Americas £1,005,000 (2000: £212,000), Continental Europe and overseas £62,000 (2000: £227,000) and Australia, a credit of £104,000 (2000: charge £123,000).

2 Segmental analysis continued

	2001 Continuing operations Total £000	Restated 2000 Continuing operations Total £000
Net assets		
Class of business		
Foundations	69,532	65,509
Specialist services	66,945	1,730
	136,477	67,239
Net debt	(63,202)	(9,611)
	73,275	57,628
Geographical origin		
United Kingdom	9,194	10,276
The Americas	109,862	39,945
Continental Europe and overseas	15,468	13,215
Australia	1,953	3,803
	136,477	67,239
Net debt	(63,202)	(9,611)
	73,275	57,628

In the opinion of the directors: (i) it is not deemed appropriate to analyse net debt and net interest payable thereon by geographical segment and (ii) turnover by destination is not materially different from turnover by origin.

3 Operating costs

	2001 Continuing operations £000	2001 Continuing operations Acquisitions £000	2001 Continuing operations Total £000	2000 Continuing operations Total £000
Change in stocks of finished goods and work in progress	28	275	303	(14)
Own work capitalised	(4,108)	–	(4,108)	(3,432)
Raw materials and consumables	103,720	9,609	113,329	73,753
Other external and operating charges	165,914	600	166,514	129,797
Staff costs	104,593	8,840	113,433	89,641
Amortisation of goodwill and intangibles	706	632	1,338	363
Depreciation: tangible owned fixed assets	6,766	195	6,961	6,477
tangible fixed assets held under finance leases	300	–	300	162
	377,919	20,151	398,070	296,747
Other external and operating charges include:				
Auditors' remuneration: audit fees (Company: £48,000 (2000: £42,000))			424	340
fees paid to the auditors and associates for other services*			116	251
Rental of plant and equipment			32,092	21,859
Rental of property			2,222	1,684
Restructuring costs			–	1,177

*In addition, £388,000 was paid in relation to the acquisition of Suncoast Post-Tension L.P. and £358,000 in respect of debt financing.

4 Employees

The aggregate staff costs of the Group were:

	2001 £000	2000 £000
Wages and salaries	93,348	75,457
Social security costs	13,426	12,076
Other pension costs	6,659	2,108
	113,433	89,641

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 28 to 30 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:

	2001 Number	2000 Number
United Kingdom	833	871
The Americas	995	677
Continental Europe and overseas	1,105	1,142
Australia	335	305
	3,268	2,995

5 Net interest payable

	2001 £000	2000 £000
Interest payable on bank loans and overdrafts	1,728	869
Interest on other loans	446	475
Interest payable on finance leases	71	82
	2,245	1,426
Interest receivable	(460)	(666)
	1,785	760

6 Taxation

The taxation charge comprises:

	2001 £000	Restated 2000 £000
UK corporation tax at 30% (2000: 30%)	411	579
Overseas tax	9,286	4,988
Deferred tax	(1,049)	252
Under/(over) provisions in respect of prior years	36	(28)
	8,684	5,791

The charge exceeds the UK rate due to:

	2001 £000	2000 £000
Expected tax charge at 30% (2000: 30%)	6,718	4,634
Tax charged overseas at more than 30%	1,858	1,094
Permanent timing differences	108	63
Actual tax charge	8,684	5,791

7 Dividends paid and proposed

Ordinary dividends on equity shares:

	2001 £000	2000 £000
Interim paid	1,790	1,619
Final proposed	3,611	3,210
	5,401	4,829

An interim ordinary dividend of 3.15p (2000: 2.85p) per share was paid on 31 October 2001.

The final proposed ordinary dividend of 6.05p (2000: 5.65p) per share will be paid on 31 May 2002.

8 Earnings per share

Earnings per share is calculated as follows:

	2001 Basic	2001 Diluted	Restated 2000 Basic	Restated 2000 Diluted
Profit after tax and minority interests	£13,367,000	£13,367,000	£9,796,000	£9,796,000
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average of ordinary shares in issue during the year	56,640,447	56,640,447	56,529,208	56,529,208
Add: Weighted average of shares under option during the year	–	168,862	–	188,365
Add: Weighted average of own shares held	–	318,000	–	277,427
Subtract: Number of shares assumed issued at fair value during the year	–	(79,362)	–	(91,467)
Adjusted weighted average of ordinary shares in issue	56,640,447	57,047,947	56,529,208	56,903,533
	pence	pence	pence	pence
Earnings per share	23.6	23.4	17.3	17.2

Earnings per share before amortisation of goodwill of 25.8p (2000: 17.9p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £14,618,000 (2000: £10,118,000) and the weighted average number of ordinary shares in issue during the year of 56,640,447 (2000: 56,529,208).

Diluted earnings per share before amortisation of goodwill of 25.6p (2000: 17.8p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £14,618,000 (2000: £10,118,000) and the adjusted weighted average number of ordinary shares in issue during the year of 57,047,947 (2000: 56,903,533).

9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 2001	13,040	(489)	12,551
Additions	49,597	–	49,597
At 31 December 2001	62,637	(489)	62,148
Amortisation			
At 1 January 2001	530	(280)	250
Charge/(credit) for the year	1,355	(104)	1,251
At 31 December 2001	1,885	(384)	1,501
Net book value			
At 31 December 2001	60,752	(105)	60,647
Net book value			
At 31 December 2000	12,510	(209)	12,301

On 1 October 2001, the Group acquired the business and assets of Suncoast Post-Tension Inc., for a consideration of £61,481,000 in cash. Additional related fees amounted to £3,532,000. Under the terms of the acquisition agreement the working capital at the date of acquisition is subject to audit and adjustment. The directors are of the opinion that no further payment will be required of the Group. The directors estimate that £679,000 will become payable in respect of deferred purchase consideration.

9 Goodwill continued

In the year ended 31 December 2001, Suncoast Post-Tension L.P. contributed £2,374,000 to the Group's net operating cash flows, utilised £45,000 in respect of returns on investments and servicing of finance, utilised £25,000 for capital expenditure, utilised £65,013,000 in respect of acquisitions and received £61,226,000 by way of financing.

In the year from 1 October 2000 to 30 September 2001, Suncoast had a turnover of £93,600,000, operating profit of £9,200,000, profit before tax of £6,700,000 and a taxation charge of £2,500,000.

On 20 November 2001, the Group acquired the assets of Catoh Inc., for an initial cash consideration of £1,800,000 and debt of £1,200,000. A deferred purchase consideration of £154,000 is payable based upon the audited net assets at the date of acquisition.

Positive goodwill on acquisitions is amortised over its estimated economic life which is considered to be 20 years. Negative goodwill is amortised over its economic life of four years and eight months.

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

	FSI £000	TCDI £000	Suncoast £000	Catoh £000	2001 Total £000	2000 Total £000
Tangible fixed assets	–	–	6,028	1,466	7,494	2,412
Stocks	–	–	6,116	–	6,116	275
Debtors	–	–	19,347	2,123	21,470	3,909
Net cash	–	–	13	–	13	271
Debt	–	–	–	(1,157)	(1,157)	(1,423)
Creditors	–	–	(11,649)	(508)	(12,157)	(3,017)
Net assets acquired	–	–	19,855	1,924	21,779	2,427
Fair value adjustments:						
Fixed asset revaluations	–	–	(1,869)	(171)	(2,040)	1,011
Stocks revaluation	–	–	(95)	–	(95)	–
Debtors revaluation	–	–	(1,501)	–	(1,501)	–
Accounting policy alignment	–	–	(170)	–	(170)	(122)
Fair value of net assets acquired	–	–	16,220	1,753	17,973	3,316
Minority interests in net assets acquired	–	–	–	–	–	(64)
Group interests in net assets acquired	–	–	16,220	1,753	17,973	3,252
Positive goodwill arising on investment	–	–	49,472	125	49,597	11,324
Cost of investment	–	–	65,692	1,878	67,570	14,576
Less: loan notes	–	–	–	–	–	(2,867)
Less: other consideration	–	–	–	–	–	(100)
Less: deferred purchase consideration	–	–	(679)	(154)	(833)	(2,551)
Deferred purchase consideration in respect of prior year acquisitions	153	453	–	–	606	–
Acquisition of subsidiary undertakings per cash flow	153	453	65,013	1,724	67,343	9,058

9 Goodwill continued

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 was subject to revision based on the audited net assets at the date of acquisition. An additional payment of £84,000 was required. In addition, a deferred purchase consideration of £69,000 was paid in relation to the 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 was subject to revision based on the audited net assets at the date of acquisition. An additional payment of £384,000 was required. In addition, a deferred purchase consideration of £348,000 is payable in instalments over the six years from the date of acquisition. Of this, £69,000 was paid in the year.

In October 2000, the Group acquired the share capital of Minages et Travaux 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.

10 Other intangible assets

Group	Licences £000
Cost	
At 1 January 2001	496
Additions	72
Exchange differences	(9)
At 31 December 2001	559
Amortisation	
At 1 January 2001	101
Charge for the year	87
Exchange differences	(1)
At 31 December 2001	187
Net book value	
At 31 December 2001	372
Net book value	
At 31 December 2000	395

11 Tangible assets

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
Cost				
At 1 January 2001	17,459	86,116	345	103,920
Exchange differences	(121)	(643)	20	(744)
Additions	425	10,735	304	11,464
Acquired with subsidiary undertakings	931	4,523	–	5,454
Disposals	(604)	(3,230)	–	(3,834)
Reclassification	65	307	(372)	–
At 31 December 2001	18,155	97,808	297	116,260
Depreciation				
At 1 January 2001	2,389	50,743	–	53,132
Exchange differences	(21)	(429)	–	(450)
Charge for the year	260	7,001	–	7,261
Disposals	(593)	(2,367)	–	(2,960)
At 31 December 2001	2,035	54,948	–	56,983
Net book value				
At 31 December 2001	16,120	42,860	297	59,277
Net book value				
At 31 December 2000	15,070	35,373	345	50,788

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

	2001 £000	2000 £000
Land and buildings	755	590
Plant, machinery and vehicles	2,652	1,714
	3,407	2,304

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

	2001 Cost £000	2001 Accumulated depreciation £000	2001 NBV £000	2000 NBV £000
Freehold land	5,236	–	5,236	5,141
Freehold buildings	12,037	(1,907)	10,130	9,339
Long leases	669	(119)	550	–
Short leases	264	(60)	204	590
	18,206	(2,086)	16,120	15,070

12 Investments

Cost	2001 Group £000	2000 Group £000	2001 Company £000	2000 Company £000
Own shares	778	778	778	778
Less: amounts owed to beneficiaries of Employee Benefit Trust	(778)	(778)	(778)	(778)
Subsidiary undertakings	–	–	22,846	19,846
	–	–	22,846	19,846

12 Investments continued

The market value of the investment in 318,000 own shares at 31 December 2001 was £884,040. As noted on page 29 this investment relates to purchases under the Keller Group plc Deferred Annual Bonus Scheme to cover awards and potential matched shares or additional matched shares by the Keller Group plc Employee Benefit Trust.

During the year the Company invested a further £3m in Keller Limited in return for a dividend of the same amount.

The Company's principal operating subsidiary undertakings at 31 December 2001 were as follows. A full list of subsidiaries will be annexed to the Company's next annual return.

Subsidiary undertaking	Country of incorporation	Subsidiary undertaking	Country of incorporation
Keller Limited	Great Britain	Keller Fondazioni S.r.l.	Italy
Makers UK Limited	Great Britain	Keller (Malaysia) Sdn. Bhd.	Malaysia
Allied Mechanical Services Limited	Great Britain	Keller Foundations (South East Asia) Pte Ltd	Singapore
Keller Grundbau GmbH	Germany	Keller Turki Company Ltd	Saudi Arabia
Keller Fondations Spéciales SARL	France	Geotechnical Engineering Contractor Ltd	Egypt
Keller Grundbau Ges.mbH	Austria	Frankipile Australia Pty Ltd	Australia
Keller Specialne zakladanie, spol. sr.o.	Slovakia	P.T. Frankipile Indonesia	Indonesia
Keller Specialni zakladani, spol. sr.o.	Czech Republic	Hayward Baker Inc	USA
Keller Grundbau Mélyépítő kft	Hungary	Case Foundation Company	USA
Minages et Travaux Souterrains SA	Switzerland	Case Atlantic Company	USA
Keller Funderingstecknieken B.V.	Holland	Suncoast Post-Tension L.P.	USA
Keller Cimentaciones Especiales	Spain	Keller Cimentaciones Cia Ltda	Colombia
Lime Column Markteknik AB	Sweden	Keller Cimentaciones de Latinoamerica, S.A. de C.V.	Mexico
Keller Polska Sp. z o.o.	Poland		

Each of the above subsidiary undertakings is directly or indirectly wholly owned by the Company apart from Frankipile Australia Pty Ltd which is owned 85% by Keller Holdings Ltd, Lime Column Markteknik AB which is owned 50% by Keller Holding GmbH, Keller Turki Company Ltd which is owned 65% by Keller Grundbau GmbH and P.T. Frankipile Indonesia which is owned 60% by Franki Pacific Holdings Pty Ltd. Keller Ltd is held directly 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	2001 £000	2000 £000
Raw materials and consumables	5,744	6,396
Work in progress	290	67
Finished goods	6,432	563
	12,466	7,026

14 Debtors

	2001 Group £000	2000 Group £000	2001 Company £000	2000 Company £000
Trade debtors	107,297	81,773	–	–
Amounts recoverable on contracts	4,978	3,519	–	–
Amounts owed by subsidiary undertakings	–	–	43,049	27,891
Other debtors	5,240	4,212	873	614
Prepayments	2,803	1,607	180	4
	120,318	91,111	44,102	28,509

Included in the above are amounts falling due after more than one year in respect of:

Amounts owed by subsidiary undertakings	–	–	29,302	12,418
Other debtors	1,680	1,569	–	118
	1,680	1,569	29,302	12,536

15 Creditors: amounts falling due within one year

	2001 Group £000	2000 Group £000	2001 Company £000	2000 Company £000
Overdrafts	9,225	801	–	–
Bank loans	5,197	746	–	–
Loan notes	6,898	7,068	4,198	4,368
Trade creditors	55,764	45,685	919	568
Obligations under finance leases	436	321	–	–
Amounts owed to subsidiary undertakings	–	–	9	101
Other creditors	26,452	19,164	–	10
Accruals	10,090	6,625	259	76
Corporation and withholding taxes payable	4,503	3,027	205	–
Other taxes and social security payable	6,967	6,093	–	–
Dividends payable	3,611	3,210	3,611	3,210
	129,143	92,740	9,201	8,333

There are no fixed terms for the repayment of loan notes amounting to £4,198,000. 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 and 14 April and between 15 September and 14 October in any year up to the final repayment date of 25 November 2006. The redemption of these loan notes has been assessed according to the earliest period during which loan note holders can demand redemption, namely 15 March to 14 April 2002.

Interest on these loan notes is charged at a rate for six month Sterling deposits and at 31 December 2001 this interest rate was 4.48% (2000: 6.3%).

Loan notes amounting to £2,700,000 are redeemable at the option of the loan note holders on giving 30 days' notice up to the final redemption date of 30 June 2002.

Interest on these loan notes is charged at a rate for six month Sterling deposits less 0.5%. At 31 December 2001 this interest rate (net) was 3.98% (2000: 5.8%).

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

16 Creditors: amounts falling due after more than one year

	2001 Group £000	2000 Group £000	2001 Company £000	2000 Company £000
Bank loans	51,797	12,860	7,390	–
Obligations under finance leases	1,858	1,383	–	–
Amounts owed to subsidiary undertakings	–	–	10,755	8,755
Other creditors	3,170	2,999	–	–
	56,825	17,242	18,145	8,755
Bank loans and loan notes are repayable as follows:				
Between one and two years	7,115	1,650	–	–
Between two and five years	44,682	11,210	7,390	–
	51,797	12,860	7,390	–
Obligations under finance leases are repayable as follows:				
Between one and two years	711	288	–	–
Between two and five years	344	851	–	–
In five years or more	803	244	–	–
	1,858	1,383	–	–

The amounts owed to subsidiary undertakings by Keller Group plc include loans which are repayable in full within 13 months after the lenders' written demand for repayment. The loans bear interest at LIBOR plus 1% per annum.

Bank loans totalling £54,738,000 are due for repayment by May 2006. Interest is charged at a premium over LIBOR and at 31 December 2001 the weighted average interest rate was 5.43%. Loans of £1,036,000 are repayable in equal quarterly instalments of £74,000 with a final instalment of £962,000 in June 2002. Interest is charged at 6.3% per annum.

A bank loan of £1,220,000 is repayable as to £352,000 in 2002 and £880,000 in 2003. The loan bears interest at 5.23% per annum.

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

The bank loans are denominated as follows:

Group	2001 £000	2000 £000
Loans denominated in Sterling	7,390	–
Loans denominated in Euros	–	676
Loans denominated in US Dollars	48,384	11,263
Loans denominated in Australian Dollars	1,220	1,667
	56,994	13,606

17 Provisions for liabilities and charges

Group	2001 £000	Restated 2000 £000
Deferred taxation	24	1,081
Retirement provisions	5,703	5,617
Long service leave provisions	319	302
Provision for restructuring costs	–	579
	6,046	7,579
Deferred taxation		
At 1 January	1,081	866
Exchange differences	(8)	(37)
Profit and loss account	(1,049)	252
At 31 December	24	1,081

The total net deferred taxation liability is as follows:

	2001 £000	Restated 2000 £000
Accelerated capital allowances	4,790	4,449
Other timing differences	(4,766)	(3,368)
	24	1,081

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.

	2001 £000	2000 £000
Retirement provisions (see note 29)		
At 1 January	5,617	5,303
Exchange differences	(176)	74
Arising during the year	269	261
Utilised during the year	(7)	(21)
At 31 December	5,703	5,617
Long service leave provisions		
At 1 January	302	367
Exchange differences	(18)	(29)
Arising during the year	47	18
Utilised during the year	(12)	(54)
At 31 December	319	302

Employees in Australia are entitled to long service leave after ten years of service on the basis of 8% 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

	2001 £000	2000 £000
Provision for restructuring costs		
Profit and loss account	579	1,177
Expenditure during the year	(579)	(598)
At 31 December	–	579

18 Treasury information*Interest rate and currency profile:*

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

	2001 AUD	2001 USD	2001 Euro	2001 Sterling	2001 Total
Weighted average fixed debt interest rate	–	5.6%	–	7.2%	n/a
Weighted average fixed debt period (years)	–	4.6	–	5.6	n/a
	£000	£000	£000	£000	£000
Fixed rate financial liabilities	–	(31,016)	–	(8,571)	(39,587)
Floating rate financial liabilities	(1,233)	(26,118)	(1,479)	(6,994)	(35,824)
Financial assets	1,192	2,069	4,081	4,867	12,209
Net financial assets/(liabilities)	(41)	(55,065)	2,602	(10,698)	(63,202)

	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)

The fixed rate financial liabilities comprise bank loans 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 not materially different from their carrying values.

The Group had an unutilised committed banking facility of £23.9m at 31 December 2001; the facility expires on 5 September 2006. In addition, the Group had unutilised uncommitted facilities totalling £16.7m at 31 December 2001. All of these borrowing facilities are unsecured.

19 Share capital

Company	2001 £000	2000 £000
Authorised		
Equity share capital: 80,000,000 ordinary shares of 10p each (2000: 80,000,000)	8,000	8,000
Allotted, called up and fully paid		
Equity share capital: 59,680,950 ordinary shares of 10p each (2000: 56,815,050)	5,968	5,681

Under the 1994 Scheme, 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 2001 options under this scheme were outstanding over 179,950 ordinary shares at 102p each. 25,150 options were exercised during the year.

On 14 May 2001, the Company issued options over 405,000 shares. These options, issued under the Unapproved Plan, may become exercisable between 14 May 2004 and 13 May 2011 subject to the performance criterion.

On 13 December 2001, the Company made a placing of 2,840,750 shares at a price of 285p per share.

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2001:				
As previously reported	14,545	7,629	30,142	52,316
Prior year adjustment (see note 30)	–	–	(1,081)	(1,081)
As restated	14,545	7,629	29,061	51,235
Retained profit for the financial year	–	–	7,966	7,966
Exchange differences net of taxation	–	–	(555)	(555)
Issue of new shares	7,657	–	–	7,657
At 31 December 2001	22,202	7,629	36,472	66,303
Company				
At 1 January 2001	14,545	7,629	7,243	29,417
Retained profit for the financial year	–	–	(738)	(738)
Issue of new shares	7,657	–	–	7,657
At 31 December 2001	22,202	7,629	6,505	36,336

At 31 December 2001 the cumulative amount of positive goodwill charged to reserves in previous years is £11,998,000 (2000: £11,998,000) and the cumulative amount of negative goodwill credited to reserves in previous years is £407,000 (2000: £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

	2001 Group £000	Restated 2000 Group £000	2001 Company £000	2000 Company £000
Profit for the financial year	13,367	9,796	4,663	5,686
Dividends	(5,401)	(4,829)	(5,401)	(4,829)
Exchange differences net of taxation	(555)	1,656	–	–
Issue of new shares	7,944	41	7,944	41
Net movements in shareholders' funds	15,355	6,664	7,206	898
Shareholders' funds at 1 January:				
As previously reported	57,997	51,044	35,098	34,200
Prior year adjustment (see note 30)	(1,081)	(792)		
As restated	56,916	50,252		
Shareholders' funds at 31 December	72,271	56,916	42,304	35,098

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

Group	2001 £000	2000 £000
Operating profit	24,178	16,207
Depreciation charge	7,261	6,639
Amortisation of goodwill and intangibles	1,338	363
Profit on sale of fixed assets	(349)	(536)
Movement in long-term provisions	(282)	783
Decrease/(increase) in stocks	581	(568)
Increase in debtors	(9,238)	(9,887)
Increase in creditors	9,550	6,559
Exchange differences	(852)	(2)
Net cash inflow from operating activities	32,187	19,558

23 Reconciliation of net cash flow to movement in net debt

Group	2001 £000	2000 £000
Decrease in cash in the year	(8,787)	(1,122)
Cash flow from debt and lease financing	(42,591)	(5,350)
Cash flow from decrease in short-term bank deposits	(947)	(2,978)
Change in net debt resulting from cash flows	(52,325)	(9,450)
Net debt acquired with subsidiary undertakings	(1,157)	(1,423)
New finance leases	(79)	(79)
New loan notes	–	(3,969)
Exchange differences	(30)	46
Movement in net debt in the year	(53,591)	(14,875)
Net (debt)/funds at 1 January	(9,611)	5,264
Net debt at 31 December	(63,202)	(9,611)

24 Analysis of changes in net debt

Group	At 1 January 2001 £000	Cash flow £000	Acquired with subsidiary undertakings £000	Other non-cash changes £000	Exchange differences £000	At 31 December 2001 £000
Cash in hand	10,464	(270)	–	–	(91)	10,103
Overdrafts	(801)	(8,517)	–	–	93	(9,225)
	9,663	(8,787)	–	–	2	878
Short term bank deposits	3,104	(947)	–	–	(51)	2,106
Bank loans due within one year	(746)	(4,499)	–	–	48	(5,197)
Bank loans due after one year	(12,860)	(37,771)	(1,157)	–	(9)	(51,797)
Loan notes due within one year	(7,068)	170	–	–	–	(6,898)
Finance leases	(1,704)	(491)	–	(79)	(20)	(2,294)
	(9,611)	(52,325)	(1,157)	(79)	(30)	(63,202)

25 Cash at bank and in hand

Group	2001 £000	2000 £000
Cash in hand	10,103	10,464
Short term bank deposits	2,106	3,104
	12,209	13,568

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	2001 £000	2000 £000
Share of turnover from the joint arrangements	10,487	5,992
Net joint arrangement balances at 1 January	223	585
Share of profit/(loss) from the joint arrangements before overhead allocation	1,411	(25)
Net distributions from the joint arrangements	(576)	(423)
Exchange differences	(29)	86
Net joint arrangement balances at 31 December	1,029	223
Joint arrangement debtor balances at 31 December	1,410	982
Joint arrangement creditor balances at 31 December	(381)	(759)

27 Commitments

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

	2001 £000	2000 £000
Contracted for	487	576

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

	2001 Land and buildings £000	2001 Plant, machinery and vehicles £000	2001 Total £000	2000 Total £000
Expiring within one year	157	378	535	867
Expiring between two and five years inclusive	3,457	3,693	7,150	2,896
Expiring in over five years	1,449	–	1,449	306
	5,063	4,071	9,134	4,069

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 2001 the Group had discounted bills of exchange and standby letters of credit outstanding of £1,222,902 (2000: £1,135,865).

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 to 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 £645,000 (2000: £618,000).

On 6 October 1999, a defined contribution scheme was established. There were no contributions outstanding in respect of the defined contribution scheme at 31 December 2001.

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 2001 the liability was £5,703,000 (2000: £5,617,000). The total German and Austrian pension charge for the year was £594,000 (2000: £593,000) based on local generally accepted accounting principles.

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 £1,217,000 (2000: £628,000).

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 £326,000 (2000: £269,000).

The information included in the accounts and in the above disclosure note follows the requirements of the existing standard for accounting for pension costs: SSAP 24. However, a new accounting standard FRS 17 – Retirement Benefits – has now been introduced and the information below is disclosed in accordance with the transitional provisions of FRS 17.

	As at 31 December 2001 £000
The Keller Group Pension Scheme	
Market value of assets	13,954
Present value of the scheme liabilities	(14,908)
Deficit in the scheme	(954)
Related deferred tax asset	286
Net pension liability	(668)

The value of the scheme liabilities has been determined by the actuary based on an interim valuation as at 5 April 2001 updated to the balance sheet date and using the following assumptions:

	As at 31 December 2001
Rate of increase in salaries	3.75%
Rate of increase in pensions in payment	2.50%
Rate of revaluation of pensions in deferment	2.50%
Inflation assumption	2.50%
Discount rate	6.00%

The assets of the scheme and the expected long term rates of return as at 31 December 2001 were:

	Value as at 31 December 2001 £000	Expected long term return
Equities	10,320	8.50%
Bonds	3,634	5.00%
Total market value of assets	13,954	

29 Pensions continued

	Value as at 31 December 2001 £000
German and Austrian Schemes	
Market value of assets	1,346
Present value of the schemes liabilities	(4,862)
Deficit in the scheme	(3,516)
Related deferred tax asset	927
Net pension liability	(2,589)

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

Discount rate	6.00%
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The assets of the scheme and the expected long term rates of return as at 31 December 2001 were:

	Value as at 31 December 2001 £000	Expected long term return
Insurance policy	1,346	6.00%

30 Prior year adjustment

The Group has implemented FRS 19 – Deferred Tax. This standard requires provision for taxation in respect of all timing differences. This represents a change in accounting policy and therefore results in a prior year adjustment. The charge to reserves brought forward at 1 January 2001 amounted to £1,081,000 (2000: £792,000). The comparatives for the year to 31 December 2000 have been restated in accordance with the new accounting policy.

31 Post balance sheet event

On 21 January 2002 the Group acquired a 49% shareholding in Wannewetsch GmbH Hochdruckwassertechnik for a total cash consideration of £1.3m. Wannewetsch had sales of £1.3m and operating profit of £0.3m in the year ended 31 December 2000.

Financial record

	1997*	1998*	1999*	2000*	2001
	£000	£000	£000	£000	£000
Consolidated profit and loss account					
Turnover	244,645**	266,854	314,899	312,954	422,248
Operating profit before amortisation of goodwill and restructuring costs	14,264	16,995	19,362	17,706	25,429
Amortisation of goodwill	–	48	24	(322)	(1,251)
Restructuring costs	–	–	–	(1,177)	–
Operating profit	14,264	17,043	19,386	16,207	24,178
Net interest payable	(440)	(341)	(345)	(760)	(1,785)
Profit on ordinary activities before taxation	13,824	16,702	19,041	15,447	22,393
Taxation	(5,482)	(5,693)	(6,872)	(5,791)	(8,684)
Profit on ordinary activities after taxation	8,342	11,009	12,169	9,656	13,709
Equity minority interests	(86)	(354)	(112)	140	(342)
Profit for the financial year	8,265	10,655	12,057	9,796	13,367
Dividends paid and proposed	(3,612)	(4,021)	(4,428)	(4,829)	(5,401)
Retained profit for the financial year	4,644	6,634	7,629	4,967	7,966
Consolidated balance sheet					
Intangible fixed assets	–	1,506	1,604	12,696	61,019
Tangible fixed assets	36,195	42,839	43,688	50,788	59,277
Other net operating assets	13,937	14,756	14,082	18,971	31,857
Net (debt)/funds	(1,969)	(648)	5,264	(9,611)	(63,202)
Other liabilities	(13,489)	(14,110)	(13,487)	(15,216)	(15,676)
Net assets	34,674	44,343	51,151	57,628	73,275
Equity minority interests	(124)	(949)	(899)	(712)	(1,004)
Equity shareholders' funds	34,550	43,394	50,252	56,916	72,271
Gearing	6%	1%	0%	17%	86%
Basic earnings per share	14.7p	18.9p	21.3p	17.3p	23.6p
Earnings per share before amortisation of goodwill	14.7p	18.8p	21.2p	17.9p	25.8p
Diluted earnings per share	14.6p	18.8p	21.2p	17.2p	23.4p
Diluted earnings per share before amortisation of goodwill	14.6p	18.7p	21.2p	17.8p	25.6p
Dividend per share	6.45p	7.1p	7.8p	8.5p	9.2p

*Restated for the effects of FRS 19.

**Restated for the effects of FRS 9.

Principal offices

UK Keller Ground Engineering Oxford Road Ryton-on-Dunsmore Coventry CV8 3EG Telephone 024 7651 1266 Fax 024 7630 5230 Makers UK Ltd Oxford Road Ryton-on-Dunsmore Coventry CV8 3EG Telephone 024 7651 1266 Fax 024 7663 9341 Australia Franki Pacific Holdings Pty Ltd 56 Station Street Parramatta NSW 2150 Telephone 612 98912588 Fax 612 98911616	USA Hayward Baker Inc 1130 Annapolis Road Odenton Maryland 21113 Telephone 1410 5518200 Fax 1410 5511988 Case Foundation Company PO Box 40 1325 West Lake Street Roselle Illinois 60172 Telephone 1630 5292911 Fax 1630 5294802 Suncoast Post-Tension L.P. 15422 Lillja Road Houston Texas 77060 Telephone 1281 4458886 Fax 1281 4459633	Continental Europe Keller Grundbau GmbH Kaiserleistrasse 44 D-63067 Offenbach Germany Telephone 4969 80510 Fax 4969 8051244 Keller Fondations Spéciales SARL Espace Plein Ciel Allée de l'Europe F-67960 Entzheim France Telephone 333 88599200 Fax 333 88599590 Keller Grundbau Ges.mmbH Mariahilfer Strasse 129 Postfach 99 A-1151 Vienna Austria Telephone 431 8923526 Fax 431 8923711	Overseas Keller (Malaysia) Sdn. Bhd. No 35, Kg Pakar Batu 5, Jalan Sungei Besi 57100 Kuala Lumpur Malaysia Telephone 603 7802894 Fax 603 7800349 Keller Turki Company Ltd PO Box 718 Dammam 31421 Saudi Arabia Telephone 9663 8333997 Fax 9663 8335325 Geotechnical Engineering Contractor Ltd 462 El Horreya Street Alexandria Egypt Telephone 203 5458443 Fax 203 5427372
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Secretary and advisers

Company secretary J F Holman Registered office Aztec House 397-405 Archway Road London N6 4EY Registered number 2442580	Stockbrokers and financial advisers Dresdner Kleinwort Wasserstein 20 Fenchurch Street London EC3P 3DB Auditors KPMG Audit Plc Chartered Accountants 8 Salisbury Square London EC4Y 8BB	Principal bankers Bank of Scotland 38 Threadneedle Street London EC2P 2EH Solicitors DLA 3 Noble Street London EC2V 7EE	Registrars Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA
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Design and Production

Radley Yeldar, London.

Keller Group plc

Aztec House
397-405 Archway Road
London N6 4EY
United Kingdom.
T 020 8341 6424
F 020 8340 6981
www.keller.co.uk