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 implemented FRS 19 – Deferred Tax in 2001 which gave rise to a prior year adjustment in that year, 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 using the acquisition method of accounting unless otherwise stated.

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 £16,413,000 a profit of £5,030,000 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 are:

Buildings	**2%**
Long life plant and equipment	**8.33%**
Short life plant and equipment	**12.5%**
Motor vehicles	**25%**
Computers	**33.33%**

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

(g) Research and development
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 on defined benefit schemes is recognised on a systematic and rational basis over the expected service lives of current employees.

Pension costs in respect of defined contribution schemes are recognised as incurred.

(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:

	2002	2001
US Dollar: average for year	**1.50**	1.44
US Dollar: year end	**1.60**	1.45
Australian Dollar: average for year	**2.77**	2.79
Australian Dollar: year end	**2.84**	2.84
Euro: average for year	**1.59**	1.61
Euro: year end	**1.53**	1.64

Notes to the accounts continued

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

	2002 Continuing operations £000	2002 Continuing operations Acquisitions £000	2002 Continuing operations Total £000	2001 Continuing operations Total £000
Turnover				
Class of business				
Foundation services	**356,416**	**5,025**	**361,441**	347,826
Specialist services	**145,987**	**3,543**	**149,530**	74,422
	502,403	**8,568**	**510,971**	422,248
Geographical origin				
United Kingdom	**104,704**	**2,034**	**106,738**	100,130
The Americas	**242,567**	**–**	**242,567**	188,761
Continental Europe and overseas	**133,918**	**1,681**	**135,599**	115,008
Australia	**21,214**	**4,853**	**26,067**	18,349
	502,403	**8,568**	**510,971**	422,248
Operating profit				
Class of business				
Foundation services	**26,625**	**761**	**27,386**	23,216
Specialist services	**5,490**	**531**	**6,021**	2,762
	32,115	**1,292**	**33,407**	25,978
Geographical origin				
United Kingdom	**3,830**	**117**	**3,947**	3,167
The Americas	**19,536**	**–**	**19,536**	16,344
Continental Europe and overseas	**7,490**	**430**	**7,920**	5,820
Australia	**1,259**	**745**	**2,004**	647
	32,115	**1,292**	**33,407**	25,978
Unallocated central costs			**(2,163)**	(1,800)
			31,244	24,178
Net interest payable			**(3,914)**	(1,785)
Profit on ordinary activities before taxation			**27,330**	22,393

The amortisation of goodwill has been analysed by geographical segment as follows: United Kingdom £376,000 (2001: £288,000), The Americas £2,802,000 (2001: £1,005,000), Continental Europe and overseas £122,000 (2001: £62,000) and Australia, a credit of £200,000 (2001: credit £104,000).

The amortisation of goodwill has been analysed by class of business as follows: Foundation services £292,000 (2001: £336,000) and Specialist services £2,808,000 (2001: £915,000).

2 Segmental analysis continued

	2002 Continuing operations Total £000	2001 Continuing operations Total £000
Net assets		
Class of business		
Foundations services	**94,153**	69,532
Specialist services	**73,986**	66,945
	168,139	136,477
Net debt	**(67,995)**	(63,202)
	100,144	73,275
Geographical origin		
United Kingdom	**22,839**	9,194
The Americas	**115,507**	109,862
Continental Europe and overseas	**26,251**	15,468
Australia	**3,542**	1,953
	168,139	136,477
Net debt	**(67,995)**	(63,202)
	100,144	73,275

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

	2002 Continuing operations £000	2002 Continuing operations Acquisitions £000	2002 Continuing operations Total £000	2001 Continuing operations Total £000
Change in stocks of finished goods and work in progress	**722**	**–**	**722**	303
Own work capitalised	**(4,502)**	**–**	**(4,502)**	(4,108)
Raw materials and consumables	**147,978**	**2,635**	**150,613**	113,329
Other external and operating charges	**185,269**	**1,732**	**187,001**	170,771
Staff costs	**131,306**	**2,625**	**133,931**	109,176
Amortisation of goodwill and intangibles	**3,110**	**97**	**3,207**	1,338
Depreciation: tangible owned fixed assets	**8,203**	**187**	**8,390**	6,961
tangible fixed assets held under finance leases	**365**	**–**	**365**	300
	472,451	**7,276**	**479,727**	398,070
Other external and operating charges include:				
Auditors' remuneration: audit fees (Company: £56,000 (2001: £48,000))			**454**	424
fees paid to the auditors and associates for other services*			**150**	116
Rental of plant and equipment			**32,313**	32,092
Rental of property			**3,055**	2,222

*In addition, £112,000 was paid in relation to the acquisition of Keller Terra S.L. and £27,000 for the acquisition of Accrete Limited.

4 Employees

The aggregate staff costs of the Group were:

	2002 £000	2001 £000
Wages and salaries	**114,997**	93,348
Social security costs	**16,339**	13,426
Other pension costs	**2,595**	2,402
	133,931	109,176

These costs include directors' remuneration. Disclosures on directors' remuneration, including emoluments, shareholdings, pension rights and interests in long term incentive arrangements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 33 and 34 within the remuneration report and form part of these financial statements.

Notes to the accounts continued

4 Employees continued

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

	2002 Number	2001 Number
United Kingdom	**876**	833
The Americas	**1,528**	995
Continental Europe and overseas	**1,276**	1,105
Australia	**375**	335
	4,055	3,268

5 Net interest payable

	2002 £000	2001 £000
Interest payable on bank loans and overdrafts	**3,803**	1,728
Interest on other loans	**294**	446
Interest payable on finance leases	**104**	71
	4,201	2,245
Interest receivable	**(287)**	(460)
	3,914	1,785

6 Taxation

The taxation charge comprises:

	2002 £000	2001 £000
Current tax:		
UK corporation tax on profits of the period	**342**	411
Overseas tax	**9,555**	9,285
Adjustments in respect of previous periods	**(1,030)**	37
Total current tax	**8,867**	9,733
Deferred tax:		
Current year	**359**	(1,049)
Prior year	**1,458**	–
Total deferred tax (see note 17)	**1,817**	(1,049)
	10,684	8,684
Factors affecting the tax charge for the year.		
Profit on ordinary activities before taxation	**27,330**	22,393
Profit on ordinary activities multiplied by the UK standard corporation tax rate of 30% (2001: 30%)	**8,199**	6,718
Effects of:		
Tax charged overseas at rates other than 30%	**1,869**	1,486
Capital allowances for the period in excess of depreciation	**(406)**	(350)
Other timing differences	**235**	1,842
Adjustment to tax charge in respect of previous periods	**(1,030)**	37
Current tax charge	**8,867**	9,733

7 Dividends paid and proposed

Ordinary dividends on equity shares:

	2002 £000	2001 £000
Interim paid	**1,995**	1,790
Final proposed	**4,289**	3,611
	6,284	5,401

An interim ordinary dividend of 3.3p (2001: 3.15p) per share was paid on 31 October 2002.

The final proposed ordinary dividend of 6.6p (2001: 6.05p) per share will be paid on 30 May 2003.

8 Earnings per share

Earnings per share is calculated as follows:

	2002 Basic	2002 Diluted	2001 Basic	2001 Diluted
Profit after tax and minority interests	**£16,413,000**	**£16,413,000**	£13,367,000	£13,367,000
	No. of shares	No. of shares	No. of shares	No. of shares
Weighted average of ordinary shares in issue during the year	**59,749,130**	**59,749,130**	56,640,447	56,640,447
Add: weighted average of shares under option during the year	**–**	**993,116**	–	168,862
Add: weighted average of own shares held	**–**	**218,625**	–	318,000
Subtract: number of shares assumed issued at fair value during the year	**–**	**(827,442)**	–	(79,362)
Adjusted weighted average of ordinary shares in issue	**59,749,130**	**60,133,429**	56,640,447	57,047,947
	pence	pence	pence	pence
Earnings per share	**27.5**	**27.3**	23.6	23.4

Earnings per share before amortisation of goodwill of 32.7p (2001: 25.8p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £19,513,000 (2001: £14,618,000) and the weighted average number of ordinary shares in issue during the year of 59,749,130 (2001: 56,640,447).

Diluted earnings per share before amortisation of goodwill of 32.5p (2001: 25.6p) is calculated based on profit after tax and minority interests before amortisation of goodwill of £19,513,000 (2001: £14,618,000) and the adjusted weighted average number of ordinary shares in issue during the year of 60,133,429 (2001: 57,047,947).

9 Goodwill

Group	Positive goodwill £000	Negative goodwill £000	Total £000
Cost			
At 1 January 2002	62,637	(489)	62,148
Additions	11,077	(2,334)	8,743
At 31 December 2002	**73,714**	**(2,823)**	**70,891**
Amortisation			
At 1 January 2002	1,885	(384)	1,501
Charge/(credit) for the year	3,300	(200)	3,100
At 31 December 2002	**5,185**	**(584)**	**4,601**
Net book value			
At 31 December 2002	**68,529**	**(2,239)**	**66,290**
Net book value			
At 31 December 2001	60,752	(105)	60,647

On 16 August 2002, the Group acquired 100% of the issued share capital of Accrete Limited for a consideration of £3,000,000 in cash. Additional related fees amounted to £210,000. Deferred purchase consideration of up to £900,000 may become payable based on the pre-tax profits of the Company for the three years to 30 April 2005.

On 16 August 2002, the Group acquired 100% of the issued share capital of Vibropile (Aust) Pty Limited for a cash consideration of £1.0m.

On 9 December 2002, the Group acquired 51% of the issued share capital of Keller-Terra S.L. for a consideration of £8,390,000 satisfied by the issue of 3,029,000 new ordinary shares of 10p each. Additional related fees amounted to £203,000.

On 20 December 2002, the Group acquired 100% of the issued share capital of McKinney Drilling Company for an initial consideration of £16,227,000 in cash. Additional related fees amounted to £833,000. 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 in this respect. Deferred purchase consideration may become payable up to a maximum of $24m (£15m), dependent upon the results of McKinney for the two years ended 31 December 2004. Of this deferred consideration, up to US$14m (£9m) will become payable on a dollar for dollar basis to the extent that aggregate EBITDA for the two years exceeds US$12m (£7.7m), and up to US$10m (£6.4m) will become payable on the basis of 50 cents for every dollar that aggregate EBITDA for those two years exceeds US$26m (£17m). The directors estimate that £1.7m will become payable in respect of deferred purchase consideration, and will be paid in cash.

Items disclosed in the following table under “Other” include the acquisition of Wannenwetsch Hochdruckwassertechnik GmbH. On 21 January 2002, the Group acquired 49% of the issued share capital for a cash consideration of £1.3m and on 1 October 2002 the Group acquired a further 35% interest in the company for a cash consideration of £1.4m.

In August, the Group bought out the local management’s 15% minority interest in the Australian subsidiary, Keller Australia, for £0.3m.

In addition, the goodwill arising from the acquisition of Suncoast in 2001 has been adjusted to reflect the result of the completion working capital audit and the write-back of the deferred purchase consideration.

Notes to the accounts continued

9 Goodwill continued

In the period from 31 January 2002 to 20 December 2002, McKinney had a profit after taxation of £2,850,000 and for the year ended 31 January 2002, a profit after taxation of £4,355,000.

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 10 years.

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

	McKinney £000	Vibropile £000	Keller-Terra £000	Accrete £000	Other £000	2002 Total £000	2001 Total £000
Fixed assets	6,130	1,739	1,965	251	2,094	**12,179**	7,494
Stocks	1,334	31	1,413	41	120	**2,939**	6,116
Debtors	9,403	1,364	10,175	1,888	787	**23,617**	21,470
Net cash/(overdraft)	1,049	131	4	(343)	58	**899**	13
Net debt	–	(1,386)	(551)	250	–	**(1,687)**	(1,157)
Creditors	(3,029)	(666)	(6,509)	(1,465)	(2,272)	**(13,941)**	(12,157)
Net assets acquired	14,887	1,213	6,497	622	787	**24,006**	21,779
Fair value adjustments:							
Fixed asset revaluations	6,311	–	–	–	(583)	**5,728**	(2,040)
Stocks revaluation	–	–	–	–	–	**–**	(95)
Debtors' revaluation	1,119	–	–	(498)	(55)	**566**	(1,501)
Deferred tax	748	–	–	–	–	**748**	–
Creditors' revaluation	(2,200)	–	–	(222)	–	**(2,422)**	–
Accounting policy alignment	–	–	–	–	–	**–**	(170)
Fair value of net assets acquired	20,865	1,213	6,497	(98)	149	**28,626**	17,973
Minority interests in net assets acquired	–	(37)	(3,184)	–	244	**(2,977)**	–
Group interests in net assets acquired	20,865	1,176	3,313	(98)	393	**25,649**	17,973
(Negative)/positive goodwill arising on investment	(2,082)	(178)	5,280	4,208	1,515	**8,743**	49,597
Cost of investment	18,783	998	8,593	4,110	1,908	**34,392**	67,570
Less: deferred purchase consideration	(1,723)	–	–	(900)	–	**(2,623)**	(833)
Deferred purchase consideration in respect of prior year acquisitions	–	–	–	–	1,172	**1,172**	606
Acquisition of subsidiary undertakings per cash flow	17,060	998	8,593	3,210	3,080	**32,941**	67,343

10 Other intangible assets

Group	Licences £000
Cost	
At 1 January 2002	559
Additions	82
Acquired with subsidiary undertakings	14
Exchange differences	23
At 31 December 2002	**678**
Amortisation	
At 1 January 2002	187
Charge for the year	107
Exchange differences	10
At 31 December 2002	**304**
Net book value	
At 31 December 2002	**374**
Net book value	
At 31 December 2001	372

11 Tangible assets

Group	Land and buildings £000	Plant, machinery and vehicles £000	Capital work in progress £000	Total £000
Cost				
At 1 January 2002	18,155	97,808	297	116,260
Exchange differences	(221)	(1,798)	11	(2,008)
Additions	1,794	14,841	233	16,868
Acquired with subsidiary undertakings	2,741	15,152	–	17,893
Disposals	(30)	(7,397)	(7)	(7,434)
Reclassification	–	279	(279)	–
At 31 December 2002	**22,439**	**118,885**	**255**	**141,579**
Depreciation				
At 1 January 2002	2,035	54,948	–	56,983
Exchange differences	29	(67)	–	(38)
Charge for the year	312	8,443	–	8,755
Disposals	(3)	(3,933)	–	(3,936)
At 31 December 2002	**2,373**	**59,391**	**–**	**61,764**
Net book value				
At 31 December 2002	**20,066**	**59,494**	**255**	**79,815**
Net book value				
At 31 December 2001	16,120	42,860	297	59,277

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

	2002 £000	2001 £000
Land and buildings	**888**	755
Plant, machinery and vehicles	**3,324**	2,652
	4,212	3,407

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

	2002 Cost £000	2002 Accumulated depreciation £000	2002 NBV £000	2001 NBV £000
Freehold land	**5,659**	**–**	**5,659**	5,236
Freehold buildings	**15,724**	**(2,205)**	**13,519**	10,130
Long leases	**794**	**(135)**	**659**	550
Short leases	**262**	**(33)**	**229**	204
	22,439	**(2,373)**	**20,066**	16,120

Notes to the accounts continued

12 Investments

Cost	2002 Group £000	2001 Group £000	2002 Company £000	2001 Company £000
Own shares	**463**	778	**463**	778
Less: amounts owed to beneficiaries of Employee Benefit Trust	**(463)**	(778)	**(463)**	(778)
Subsidiary undertakings	**–**	–	**31,439**	22,846
	–	–	**31,439**	22,846

The market value of the investment in 195,044 own shares at 31 December 2002 was £492,486. As noted on page 32 this investment relates to purchases under the Keller Group plc Deferred Annual Bonus Scheme to cover awards of potential matched shares or additional matched shares by the Keller Group plc Employee Benefit Trust.

During the year the Company acquired 51% of the issued share capital of Keller-Terra S.L. at a total cost of £8,593,000.

The Company's principal operating subsidiary undertakings at 31 December 2002 were as follows. A full list of subsidiaries will be annexed to the Company's next annual return.

Subsidiary undertaking	Country of incorporation
Keller Limited	Great Britain
Makers UK Limited	Great Britain
Allied Mechanical Services Limited	Great Britain
Accrete Limited	Great Britain
Keller Grundbau GmbH	Germany
Wannenwetsch Hochdruckwassertechnik GmbH	Germany
Keller Fondations Spéciales SARL	France
Keller Grundbau Ges.mbH	Austria
Keller Specialne zakladanie, spol. sr.o.	Slovakia
Keller Specialni zakladani, spol. sr.o.	Czech Republic
Keller Grundbau Mélyépítö kft	Hungary
Minages et Travaux Souterrains SA	Switzerland
Keller Funderingstecknieken B.V.	Holland
Keller-Terra S.L.	Spain
Lime Column Markteknik AB	Sweden
Keller Polska Sp. z o.o.	Poland

Subsidiary undertaking	Country of incorporation
Keller Fondazioni S.r.l.	Italy
Keller (Malaysia) Sdn. Bhd.	Malaysia
Keller Foundations (South East Asia) Pte Ltd	Singapore
Keller Turki Company Ltd	Saudi Arabia
Geotechnical Engineering Contractor Ltd	Egypt
Frankipile Australia Pty Ltd	Australia
Vibro-pile (Aust) Pty Ltd	Australia
P. T. Frankipile Indonesia	Indonesia
Hayward Baker Inc	USA
Case Foundation Company	USA
Case Atlantic Company	USA
McKinney Drilling Company	USA
Suncoast Post-Tension L.P.	USA
Keller Cimentaciones Cia Ltda	Colombia
Keller Cimentaciones de Latinoamerica, S.A. de C.V.	Mexico

Each of the above subsidiary undertakings is directly or indirectly wholly owned by the Company apart from Keller-Terra S.L. which is 51% owned by the Company, Wannenwetsch Hochdruckwassertechnik GmbH which is owned 84% by Keller Holding GmbH, 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, Makers Holdings Limited and Keller-Terra S.L. are 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	2002 £000	2001 £000
Raw materials and consumables	**9,645**	5,744
Work in progress	**217**	290
Finished goods	**5,285**	6,432
	15,147	12,466

14 Debtors

	2002 Group £000	2001 Group £000	2002 Company £000	2001 Company £000
Trade debtors	**129,728**	107,297	**–**	–
Amounts recoverable on contracts	**3,383**	4,978	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**94,835**	43,049
Other debtors	**6,840**	5,240	**2,069**	873
Prepayments	**3,946**	2,803	**2**	180
	143,897	120,318	**96,906**	44,102
Included in the above are amounts falling due after more than one year in respect of:				
Amounts owed by subsidiary undertakings	**–**	–	**76,067**	29,302
Other debtors	**1,220**	1,680	**–**	–
	1,220	1,680	**76,067**	29,302

15 Creditors: amounts falling due within one year

	2002 Group £000	2001 Group £000	2002 Company £000	2001 Company £000
Overdrafts	**2,232**	9,225	**3**	–
Bank loans	**9,512**	5,197	**7,188**	–
Loan notes	**5,303**	6,898	**3,903**	4,198
Trade creditors	**61,736**	55,764	**1,565**	919
Obligations under finance leases	**818**	436	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**499**	9
Other creditors	**33,571**	26,452	**22**	–
Accruals	**10,684**	10,090	**226**	259
Corporation and withholding taxes payable	**5,704**	4,503	**–**	205
Other taxes and social security payable	**7,550**	6,967	**–**	–
Dividends payable	**4,294**	3,611	**4,294**	3,611
	141,404	129,143	**17,700**	9,201

There are no fixed terms for the repayment of loan notes of the Company amounting to £3,903,500. 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 2003.

Interest on these loan notes is charged at a rate for six month Sterling deposits and at 31 December 2002 this interest rate was 3.96% (2001: 4.48%).

Loan notes amounting to £1,400,000 were redeemed at the option of the loan note holders on 20 January 2003.

Interest on these loan notes was charged at a rate for six month Sterling deposits less 0.5%. At 31 December 2002 this interest rate (net) was 3.46% (2001: 3.98%).

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

Notes to the accounts continued

16 Creditors: amounts falling due after more than one year

	2002 Group £000	2001 Group £000	2002 Company £000	2001 Company £000
Bank loans	**64,035**	51,797	**55,125**	7,390
Obligations under finance leases	**2,301**	1,858	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**1,409**	10,755
Other creditors	**6,005**	3,170	**–**	–
	72,341	56,825	**56,534**	18,145
Bank loans and loan notes are repayable as follows:				
Between one and two years	**10,474**	7,115	**10,313**	–
Between two and five years	**53,561**	44,682	**44,812**	7,390
	64,035	51,797	**55,125**	7,390
Obligations under finance leases are repayable as follows:				
Between one and two years	**776**	711	**–**	–
Between two and five years	**622**	344	**–**	–
In five years or more	**903**	803	**–**	–
	2,301	1,858	**–**	–

Bank loans totalling £70,223,000 are due for repayment by September 2006. Interest is charged at a premium over LIBOR and at 31 December 2002 the weighted average interest rate was 4.70%.

A bank loan of £3,042,000 is repayable in equal instalments until June 2008.

The bank loans are denominated as follows:

Group	2002 £000	2001 £000
Loans denominated in Sterling	**17,167**	7,390
Loans denominated in Euros	**4,420**	–
Loans denominated in US Dollars	**48,918**	48,384
Loans denominated in Australian Dollars	**3,042**	1,220
	73,547	56,994

17 Provisions for liabilities and charges

Group	2002 £000	2001 £000
Deferred taxation	**1,175**	24
Retirement provisions	**6,305**	5,703
Long service leave provisions	**360**	319
	7,840	6,046
Deferred taxation		
At 1 January	**24**	1,081
Exchange differences	**82**	(8)
Profit and loss account	**1,817**	(1,049)
Acquired with subsidiary undertakings	**(748)**	–
At 31 December	**1,175**	24

The total net deferred taxation liability is as follows:

	2002 £000	2001 £000
Accelerated capital allowances	**5,988**	4,790
Other timing differences	**(4,813)**	(4,766)
	1,175	24

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.

	2002 £000	2001 £000
Retirement provisions (see note 29)		
At 1 January	**5,703**	5,617
Exchange differences	**414**	(176)
Arising during the year	**188**	269
Utilised during the year	**–**	(7)
At 31 December	**6,305**	5,703
Long service leave provisions		
At 1 January	**319**	302
Exchange differences	**(2)**	(18)
Acquired with subsidiary undertakings	**101**	–
Arising during the year	**(16)**	47
Utilised during the year	**(42)**	(12)
At 31 December	**360**	319

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

Notes to the accounts continued

18 Treasury information

Interest rate and currency profile:

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

	2002 AUD	2002 USD	2002 Euro	2002 Sterling	2002 Total
Weighted average fixed debt interest rate	**–**	**5.4%**	**–**	**4.6%**	**n/a**
Weighted average fixed debt period (years)	**–**	**3.6**	**–**	**3.6**	**n/a**
	£000	£000	£000	£000	£000
Fixed rate financial liabilities	**–**	**(27,209)**	**–**	**(9,219)**	**(36,428)**
Floating rate financial liabilities	**(3,042)**	**(24,385)**	**(6,049)**	**(14,297)**	**(47,773)**
Financial assets	**2,528**	**2,967**	**6,379**	**4,332**	**16,206**
Net financial assets/(liabilities)	**(514)**	**(48,627)**	**330**	**(19,184)**	**(67,995)**

	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	–	4.6	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)

The fixed rate financial liabilities comprise bank loans and finance leases.

The floating rate financial liabilities comprise bank loans, finance leases, loan notes 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 £26.3m at 31 December 2002; the facility expires on 5 September 2006. In addition, the Group had unutilised uncommitted facilities totalling £23.5m at 31 December 2002. All of these borrowing facilities are unsecured.

19 Share capital

Company	2002 £000	2001 £000
Authorised		
Equity share capital: 80,000,000 ordinary shares of 10p each (2001: 80,000,000)	**8,000**	8,000
Allotted, called up and fully paid		
Equity share capital: 64,981,050 ordinary shares of 10p each (2001: 59,680,950)	**6,498**	5,968

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 25 April 2005. At 1 January 2002 options under this scheme were outstanding over 154,800 ordinary shares at 102p each. 56,100 options were exercised during the year.

On 13 March 2002, the Company issued options over 547,000 shares. These options, 66,525 issued under the Approved Plan and 480,475 issued under the Unapproved Plan, may become exercisable between 13 March 2005 and 12 March 2012 subject to the performance criteria.

On 7 May 2002, the Company issued options over 50,000 shares. These options, 8,451 issued under the Approved Plan and 41,549 issued under the Unapproved Plan, may become exercisable between 7 May 2005 and 6 May 2012 subject to the performance criteria.

On 9 December 2002, the Company issued 3,029,000 ordinary shares as consideration for the acquisition of 51% of the issued share capital of Keller-Terra S.L. as detailed in note 9.

On 20 December 2002, the Company made a placing of 2,215,000 ordinary shares at a price of 240p per share.

20 Reserves

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2002	22,202	7,629	36,472	66,303
Retained profit for the financial year	–	–	10,129	10,129
Exchange differences net of taxation	–	–	(107)	(107)
Issue of new shares	13,091	–	–	13,091
At 31 December 2002	**35,293**	**7,629**	**46,494**	**89,416**
Company				
At 1 January 2002	22,202	7,629	6,505	36,336
Retained loss for the financial year	–	–	(1,254)	(1,254)
Issue of new shares	13,091	–	–	13,091
At 31 December 2002	**35,293**	**7,629**	**5,251**	**48,173**

At 31 December 2002 the cumulative amount of positive goodwill charged to reserves in previous years is £11,998,000 (2001: £11,998,000) and the cumulative amount of negative goodwill credited to reserves in previous years is £407,000 (2001: £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

	2002 Group £000	2001 Group £000	2002 Company £000	2001 Company £000
Profit for the financial year	**16,413**	13,367	**5,030**	4,663
Dividends	**(6,284)**	(5,401)	**(6,284)**	(5,401)
Exchange differences net of taxation	**(107)**	(555)	**–**	–
Issue of new shares	**13,621**	7,944	**13,621**	7,944
Net movements in shareholders' funds	**23,643**	15,355	**12,367**	7,206
Shareholders' funds at 1 January	**72,271**	56,916	**42,304**	35,098
Shareholders' funds at 31 December	**95,914**	72,271	**54,671**	42,304

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

Group	2002 £000	2001 £000
Operating profit	**31,244**	24,178
Depreciation charge	**8,755**	7,261
Amortisation of goodwill and intangibles	**3,207**	1,338
Profit on sale of fixed assets	**(752)**	(349)
Movement in long-term provisions	**130**	(282)
(Increase)/decrease in stocks	**(197)**	581
Increase in debtors	**(3,190)**	(9,238)
Increase in creditors	**3,880**	9,550
Exchange differences	**94**	(852)
Net cash inflow from operating activities	**43,171**	32,187

Notes to the accounts continued

23 Reconciliation of net cash flow to movement in net debt

Group	2002 £000	2001 £000
Increase/(decrease) in cash in the year	**10,680**	(8,787)
Cash flow from debt and lease financing	**(17,336)**	(42,591)
Cash flow from increase/(decrease) in short-term bank deposits	**61**	(947)
Change in net debt resulting from cash flows	**(6,595)**	(52,325)
Net debt acquired with subsidiary undertakings	**(1,687)**	(1,157)
New finance leases	**–**	(79)
New loan notes	**(1,400)**	–
Exchange differences	**4,889**	(30)
Movement in net debt in the year	**(4,793)**	(53,591)
Net debt at 1 January	**(63,202)**	(9,611)
Net debt at 31 December	**(67,995)**	(63,202)

24 Analysis of changes in net debt

Group	At 1 January 2002 £000	Cash flow £000	Acquired with subsidiary undertakings £000	Other non-cash changes £000	Exchange differences £000	At 31 December 2002 £000
Cash in hand	10,103	4,012	–	–	(250)	**13,865**
Overdrafts	(9,225)	6,668	–	–	325	**(2,232)**
	878	10,680	–	–	75	**11,633**
Short-term bank deposits	2,106	61	250	–	(76)	**2,341**
Bank loans due within one year	(5,197)	3,487	(895)	(7,079)	172	**(9,512)**
Bank loans due after one year	(51,797)	(23,981)	(42)	7,079	4,706	**(64,035)**
Loan notes due within one year	(6,898)	2,995	–	(1,400)	–	**(5,303)**
Finance leases	(2,294)	163	(1,000)	–	12	**(3,119)**
	(63,202)	(6,595)	(1,687)	(1,400)	4,889	**(67,995)**

25 Cash at bank and in hand

Group	2002 £000	2001 £000
Cash in hand	**13,865**	10,103
Short-term bank deposits	**2,341**	2,106
	16,206	12,209

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	2002 £000	2001 £000
Share of turnover from the joint arrangements	**5,450**	10,487
Net joint arrangement balances at 1 January	**1,029**	223
Share of profit from the joint arrangements before overhead allocation	**1,120**	1,411
Net distributions from the joint arrangements	**(1,030)**	(576)
Exchange differences	**(28)**	(29)
Net joint arrangement balances at 31 December	**1,091**	1,029
Joint arrangement debtor balances at 31 December	**1,494**	1,410
Joint arrangement creditor balances at 31 December	**(403)**	(381)

27 Commitments

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

Group	2002 £000	2001 £000
Contracted for	**–**	487

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

	2002 Land and buildings £000	2002 Plant, machinery and vehicles £000	2002 Total £000	2001 Total £000
Expiring within one year	**427**	**762**	**1,189**	535
Expiring between two and five years inclusive	**2,095**	**4,861**	**6,956**	7,150
Expiring in over five years	**915**	**3**	**918**	1,449
	3,437	**5,626**	**9,063**	9,134

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 2002 the Group had discounted bills of exchange and standby letters of credit outstanding of £2,634,519 (2001: £1,222,902).

Notes to the accounts continued

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

In the UK, the Group operates the Keller Group Pension Scheme, a defined benefit scheme, which is 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. A full actuarial valuation of the scheme was carried out by an independent professionally qualified actuary as at 5 April 2002. At this date the market value of the assets of the scheme was £14.6m and the actuarial valuation showed a funding level of 79%. The next actuarial valuation will be carried out as at 5 April 2005.

The Group has taken steps to address the deficit in the Keller Group Pension Scheme. The contribution rate for employees was increased from 6% to 8% with effect from 6 April 2002 and the contribution rate for the Group will increase from 12% to 13% with effect from 6 April 2003 giving a combined contribution rate going forward of 21%, a rate almost double that of five years ago. In addition, in December 2001 the Group made a one-off contribution to the scheme of £250,000 which was followed by another one-off contribution of £200,000 in January 2003.

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 8.21% before retirement and 5.21% after retirement, salary increases of 4.91% and pension increases of 2.91%.

The total UK pension charge for the year was £700,000 (2001: £645,000).

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 2002.

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 2002 the liability was £6,235,000 (2001: £5,703,000). The total German and Austrian pension charge for the year was £448,000 (2001: £594,000) 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 £933,000 (2001: £838,000).

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 £475,000 (2001: £326,000).

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.

The Keller Group Pension Scheme	As at 31 December 2002 £000	As at 31 December 2001 £000
Market value of assets	**12,524**	13,954
Present value of the scheme liabilities	**(19,027)**	(14,908)
Deficit in the scheme	**(6,503)**	(954)
Related deferred tax asset @ 30%	**1,951**	286
Net pension liability	**(4,552)**	(668)

The value of the scheme liabilities has been determined by the actuary based on an actuarial valuation as at 5 April 2002 updated to the balance sheet date and using the following assumptions:

	As at 31 December 2002	As at 31 December 2001
Rate of increase in salaries	**3.67%**	3.75%
Rate of increase in pensions in payment	**2.42%**	2.50%
Rate of revaluation of pensions in deferment	**2.42%**	2.50%
Inflation assumption	**2.42%**	2.50%
Discount rate	**5.75%**	6.00%

The assets of the scheme and the expected long-term rates of return as at 31 December 2002 were:

	Value as at 31 December 2002 £000	Expected long term return 2002	Value as at 31 December 2001 £000	Expected long term return 2001
Equities	**7,417**	**8.5%**	10,320	8.5%
Bonds	**5,107**	**5.0%**	3,634	5.0%
Total market value of assets	**12,524**		13,954	

29 Pensions continued

	Year ended 31 December 2002 £000
Amount charged to operating profit	
Current service cost	**718**
Amount charged to other finance income	
Expected return on assets	**1,059**
Interest on scheme liabilities	**(894)**
Net return	**165**
Amounts recognised in Statement of Total Recognised Gains and Losses (STRGL)	
Actual less expected return on assets	**(2,715)**
Experience losses on liabilities	**(2,369)**
Effect of change in assumptions on liabilities	**(508)**
Total loss recognised in STRGL	**(5,592)**
Movement in deficit during the year	
Deficit in scheme at beginning of year	**(954)**
Current service cost	**(718)**
Cash contribution	**596**
Other finance income	**165**
Actuarial loss	**(5,592)**
Deficit in scheme at end of year	**(6,503)**
History of experience gains and losses	
Difference between expected and actual returns on scheme assets	**(2,715)**
Percentage of assets at end of year	**21.68%**
Experience losses on scheme liabilities	**(2,369)**
Percentage of liabilities at end of year	**12.45%**
Total actuarial loss	**(5,592)**
Percentage of liabilities at end of year	**29.39%**

German and Austrian Schemes	Value as at 31 December 2002 £000	Value as at 31 December 2001 £000
Market value of assets	**1,370**	1,346
Present value of the schemes liabilities	**(5,079)**	(4,862)
Deficit in the scheme	**(3,709)**	(3,516)
Related deferred tax asset at 28% (2001: 26%)	**1,027**	927
Net pension liability	**(2,682)**	(2,589)

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

Discount rate	**5.75%**	6.00%

The assets of the scheme and the expected long-term rates of return as at 31 December 2002 were:

	Value as at 31 December 2002 £000	Expected long term return 2002	Value as at 31 December 2001 £000	Expected long term return 2001
Insurance policy	**1,370**	**5.75%**	1,346	6.0%

Notes to the accounts continued

29 Pensions continued

	Year ended 31 December 2002 £000
Amount charged to operating profit	
Current service cost	**201**
Amount charged to other finance cost	
Expected return on assets	**81**
Interest on scheme liabilities	**(291)**
Net charge	**(210)**
Amount recognised in Statement of Total Recognised Gains and Losses (STRGL)	
Actual less expected return on assets	**257**
Experience losses on liabilities	**(243)**
Effect of change in assumptions on liabilities	**204**
Total gain recognised in STRGL	**218**
Movement in deficit during the year	
Deficit in scheme at beginning of year	**(3,516)**
Current service cost	**(201)**
Cash contribution	**–**
Other finance cost	**(210)**
Actuarial gain	**218**
Deficit in scheme at end of year	**(3,709)**
History of experience gains and losses	
Difference between expected and actual returns on scheme assets	**257**
Percentage of assets at end of year	**18.76%**
Experience losses on scheme liabilities	**(243)**
Percentage of liabilities at end of year	**4.78%**
Total actuarial gain	**218**
Percentage of liabilities at end of year	**4.29%**

30 Prior year adjustment

The Group implemented FRS 19 – Deferred Tax in 2001. This standard requires provision for taxation in respect of all timing differences. This represented a change in accounting policy and therefore resulted in a prior year adjustment. The charge to reserves brought forward at 1 January 2001 amounted to £1,081,000.