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Keller Group plc
Results for the year ended 31 December 2018

Keller Group plc ("Keller" or "the group"), the world's largest geotechnical specialist contractor, announces its results for the year ended 31 December 2018.

	2018 £m	**2017 £m**	**% change**	**Constant currency % change**
Revenue	2,224.5	2,070.6	+7%	+11%
Underlying EBITDA[1]	167.5	177.2	-5%	-2%
Underlying operating profit[1]	96.6	108.7	-11%	-8%
Underlying profit before tax[1]	80.5	98.7	-18%	-16%
Underlying diluted earnings per share[1]	79.1p	101.8p	-22%	-20%
Total dividend per share	35.9p	34.2p	+5%	n/a
Statutory operating profit	25.0	121.3	-79%	-79%
Statutory profit before tax	8.4	110.6	-92%	-92%
Statutory diluted earnings per share	(20.6)p	120.5p	n/a	n/a

1 Before pre-tax non-underlying debits of £72.1m (2017: credits of £11.9m). Details of the non-underlying items are set out in note 8 of the consolidated financial information. Adjusted performance measures are used throughout this report. A detailed description of these, and reconciliation to statutory numbers is set out in the Adjusted performance measures section of this report.

Summary:

- Trading and earnings in line with revised expectations; net debt of £286.2m better than consensus
- Revenue of £2,225m, up 7%. On a constant currency basis, revenue is up 11%, with 5% due to the benefit of the Moretrench acquisition, and 6% from organic growth with the decrease in EMEA due to the conclusion of two large projects more than offset by core growth in all three divisions
- Underlying operating profit at £96.6m is an 11% decrease. The 9% increase from the acquisition of Moretrench, which is performing ahead of plan, was more than offset by FX headwinds of 3% and an organic reduction of 17% resulting from the previously announced completion of the large projects in EMEA, raw material cost increases in Suncoast and the significant losses in ASEAN and Waterway in the second half of the year
- Underlying diluted earnings per share of 79.1p (2017: 101.8p)
- Net debt at £286.2m with leverage reduced to 1.7x EBITDA evidencing strong cash generation in the year
- Successful refinancing of the group's syndicated revolving credit facility on improved terms
- Group-wide actions to address underperforming business units have been successfully implemented, resulting in an exceptional group restructuring charge of £61.4m, which remains in line with previous guidance and is comprised of a £30.1m impairment of goodwill, £22.8m of other impairments, and a cash restructuring charge of £8.5m. The disposal of impaired assets in 2019 is expected to raise £5m of cash, leaving the cumulative cash charge more or less neutral overall
- As a consequence of the exceptional charge, the statutory loss for the period was £13.8m (2017: profit of £87.5m)
- The outlook across the group is positive, as evidenced by an order book of £1bn of quality run rate business
- The Board is recommending a final dividend of 23.9p, giving a total dividend of 35.9p for the year, an increase of 5%, demonstrating its confidence in the prospects for the group

Alain Michaelis, Chief Executive Officer, said:

"2018 results were deeply unsatisfactory with an 11% profit decline, as a result of which we have acted firmly in restructuring four of our business units. In addition we have continued to build the capability of the group, with the successful acquisition and integration of Moretrench in the US a notable highlight. The internal improvement measures, coupled with a stable market outlook, a healthy order book and Keller's leading position in the industry, give us confidence in the outlook for 2019."

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A presentation for analysts will be held at 9.30am at
One Moorgate Place - Chartered Accountants Hall,
1 Moorgate Place, London EC2R 6EA

A live webcast will be available from 9.30am and, on demand, from 2.00pm at
https://www.investis-live.com/keller/5c58551b186fe71000438600/wcds

Notes to editors:
Keller is the world's largest geotechnical specialist contractor providing a wide portfolio of advanced foundation and ground improvement techniques used across the entire construction sector. With around 10,000 staff and operations across six continents, Keller tackles an unrivalled 7,000 projects every year, generating annual revenue of more than £2bn.

Cautionary statements:
This document contains certain 'forward looking statements' with respect to Keller's financial condition, results of operations and business and certain of Keller's plans and objectives with respect to these items.

Forward looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates'. By their very nature forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates. For a more detailed description of these risks, uncertainties and other factors, please see the Risk Management approach and Principal Risks section of the Strategic Report in the Annual Report and Accounts.

All written or verbal forward looking statements, made in this document or made subsequently, which are attributable to Keller or any other member of the group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Keller does not intend to update these forward looking statements.

Nothing in this document should be regarded as a profits forecast.

This document is not an offer to sell, exchange or transfer any securities of Keller Group plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the United States absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).

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Chairman's statement

Overview

The group overall delivered an unsatisfactory result in 2018 and as a consequence actions have been taken to restore and improve performance. North America, which accounts for half of the group's revenue, delivered good growth in revenue and flat operating profit with the benefit of the successful Moretrench acquisition offset by material price increases in Suncoast and an adverse mix of projects. The EMEA division, despite lower total revenue and underlying operating profit as a result of the completion of two large projects, delivered an excellent result if these two contracts are excluded, whilst the APAC division was severely impacted by the previously announced challenges in its ASEAN and Waterway businesses. Overall, group underlying profit before tax fell to £80.5m (2017: £98.7m). Significant restructuring has been carried out and tough but necessary actions taken across the group; the order book is healthy and the group is expected to show a good recovery in 2019.

Statutory profit before tax for the year fell to £8.4m (2017: £110.6m) largely as a result of previously announced non-underlying operating costs, which totalled £64.2m, of which £30.1m was goodwill impairment. The exceptional, mainly non-cash, restructuring costs of £30.1m comprised asset write-downs, redundancy costs and other reorganisation charges in ASEAN, Waterway, Brazil and Franki Africa. As a consequence of the exceptional charge, the statutory loss for the period was £13.8m (2017: profit £87.5m).

Keller took decisive actions across the group in 2018, closing its heavy foundations business in Singapore and Malaysia; restructuring its Waterway business in Australia and downsizing its operations in Brazil and Africa in response to adverse market conditions. The cost base has been reduced, as has exposure to unprofitable market segments. There is now an even greater focus on contract management and operational excellence to drive improved financial performance, and the control regime and risk management processes are being strengthened. All of these actions are expected to deliver benefits in 2019 and beyond.

Further to the group-wide restructuring programme in 2018, the group in 2019 will be focussing more intently on underperforming areas of its portfolio, including business units, branches, products and projects, and will remediate their performance or exit completely if there is not felt to be value potential in the medium term. Keller will focus particularly on those areas where it has leading market positions and/or market leading technologies, and will continue to look at further structural and portfolio enhancements over the medium term.

Net debt at year end was £286.2m, equivalent to leverage of 1.7x, and the group successfully refinanced its existing debt facilities, on improved terms, in late 2018. A more conservative approach is being taken regarding the balance sheet; there will be no material acquisitions in 2019; even greater focus on operational cash generation through tighter controls on working capital and capital expenditure. Whilst leverage is expected to rise slightly as usual during the first half of 2019, we expect to see a further reduction in debt during the second half. Recognising the current sentiment of the equity capital markets towards the UK construction sector, and despite a robust balance sheet and our strong cash flow generation, the group is updating its debt leverage guidance from a previous range of 1.5x-2.0x, to 1.0x-1.5x, with the 2019 year-end target to be within that range.

Safety

The safety of our employees is a priority for the group. We were particularly saddened by the deaths of three of our Keller colleagues in separate accidents during 2018. Any loss of life is taken very seriously and we continue to strive for a zero harm culture. We continue to make substantive progress regarding safety, with a strong and industry-leading track record, as demonstrated by the 69% decrease in the last five years in our overall accident frequency rate. However we must continue to work hard in this arena. During the second half of the year we appointed a new group HSEQ Director, an experienced practitioner from the Oil and Gas industry.

Board

In August 2018, James Hind took up his new role as President of the North America division, whilst remaining an Executive Director. James was succeeded by Michael Speakman as Chief Financial Officer. Michael is a highly experienced listed company Chief Financial Officer who brings significant global finance knowledge obtained in bluechip engineering groups.

Paula Bell and Baroness Kate Rock joined the Board with effect from September 2018 as Non-Executive Directors. Paula has extensive international strategic, financial, commercial and M&A experience from large listed global companies and is currently the Chief Financial Officer of Spirent Communications plc, a leading multi-national testing and solutions group. Kate has a strong international background in corporate communications and business relations. From 2014 until November 2017, Kate was a Non-executive Director and Chairman of the Remuneration Committee of Imagination Technologies plc, the former FTSE250 high technology company. Kate was appointed a Life Peer in 2015.

After eight years on the Board, Chris Girling retired as a Non-Executive Director and as Audit Committee Chairman on 1 January 2019. Chris made an enormous contribution to the Board and will be missed - we have all benefited from his wide business and contracting industry experience, judgement and sage advice. Paula Bell has succeeded Chris as Chairman of the Audit Committee.

Strong, effective and efficient governance is essential in supporting management to deliver the group's strategy and long-term business success. We will continue to develop and improve our governance regime to support the Board and executive team and ensure that the business remains responsive to opportunities and resilient to challenges.

Employees

I would like to thank all of our employees for their commitment, hard work and resilience in a difficult year. During 2018, we strengthened the organisation's leadership, not only at the Board and Executive Committee level, but also across our wider global leadership team. Management, supported by our highly-skilled, dedicated and determined employees across the globe, are committed to delivering long term sustainable growth for our shareholders.

Dividends

In line with our progressive dividend policy, and with continued confidence in the long term prospects for the group, the Board is recommending a 5% increase in the 2018 full year dividend to 35.9p (2017: 34.2p). Full year 2018 dividend earnings cover, before non-underlying items, was 2.2x (2017: 3.0x).

This recommendation results in a proposed 2018 final dividend of 23.9p per share (2017: 24.5p per share) to be paid on 21 June 2019 to shareholders on the register as at the close of business on 31 May 2019. The group intends to maintain its progressive dividend policy in the future.

Prospects

The group operates in the large and growing global construction and infrastructure market, and as a specialist geotechnical contractor, with a global presence and strong cash generation, will benefit from the favourable market trends of urbanisation and infrastructure growth. Alongside the proactive move to derisk the business further during 2019, the strategy to connect and professionalise the group remains in place, with specific actions taken during the year, not least in APAC, to improve performance. We are confident that the combination of these improvement initiatives, the group's technical leadership, wide product portfolio, broad branch network and operational strength will drive the business forward in 2019 and beyond.

Chief Executive Officer's review

Strategic and operational review

We remain committed to our strategy of building a more strategic, connected and capable company. Despite Keller's many decades of success operating as a "confederation" of local businesses, this is necessary to maximise the opportunities of scale and skill that the group possesses, and to ensure more consistent underlying performance. The disappointing results in 2018 show that this strategy remains absolutely necessary, and also demonstrate the need to accelerate in some key areas, notably in risk, control and project assurance, and to sharpen our focus on cash generation and debt levels.

Active portfolio management

Our business units

Through our upgraded strategic process, we now steer our portfolio of geographic businesses, products and projects more deliberately. Keeping the portfolio in good health via active portfolio management is an important and ongoing strategic focus. We have made a number of changes in 2018 as outlined below, and will continue to monitor and evolve the portfolio where necessary during 2019.

In keeping with our strategy of "depth over breadth" we made the significant acquisition of Moretrench in March 2018 for a consideration of $90m. This acquisition gives us a greatly enhanced presence on the US east coast, particularly in complex projects, and synergies are being delivered ahead of plan.

We are continuing to see greater levels of co-operation and collaboration across the North American businesses, which are increasingly teaming up to win and execute work.

2018 was a difficult year for four of our business units: ASEAN, Waterway, Franki Africa and Brazil.

In ASEAN, we completed a thorough review of our product and business portfolio, in light of the political and competitive landscape. As a result of deterioration in the Malaysian market conditions and disappointing project performance, we downsized the business to focus on those product lines offering the greatest opportunity to leverage our market-leading technologies. We therefore undertook a managed exit from heavy foundations activities (bored piling, driven piling and diaphragm walls) in Singapore and Malaysia, which have become highly commoditised and continue to see heavy competitive and pricing pressure. These operations had a combined annual revenue of approximately £60m. Going forward, we are focusing on higher margin ground improvement activities (vibro, grouting and deep soil mixing). The restructuring of the business is now substantially complete although some piling projects continue through the first half of 2019.

In Australia, at Waterway we took the decision to exit the highly congested bridge superstructure market and refocus on higher margin projects. Although Austral and Waterway retain their independent brands and operations, they are now sharing key leadership roles and functional support, reducing overhead and improving business processes. We continue to expect that the legacy lower margin contracts in Waterway will be substantially completed by the end of H1 2019.

The group continues to expect that the above actions and leadership changes will return the APAC division to profit in H2 2019.

We also announced that due to challenging market conditions in Brazil and South Africa, reflecting the difficult geo-political environment in those countries, and as part of our continued focus on the shape of our global capacity, we were taking proactive measures to scale back our operations in these difficult markets, primarily through capacity reduction, and as a result maintaining bidding discipline. These changes are also now substantially complete but the outlook for both markets remains uncertain in 2019, despite some improving signs.

The actions described in ASEAN, Waterway, Brazil and South Africa were part of a group-wide programme of portfolio and capacity actions. The group has taken an exceptional restructuring charge of £61.4m in the Full Year 2018 results. £30.1m relates to goodwill and £22.8m relates to fixed asset and other impairments. Cash restructuring costs are £8.5m which we expect to be offset by income from asset disposals in 2019, with net cash costs therefore broadly neutral. These measures have also resulted in a reduction of around 700 employees.

Our products

We continue to advance our product portfolio to retain our pre-eminent positions, and address areas of competitive advantage or disadvantage. Through our Global Product Teams we have developed clear product strategies that include design know-how, core technologies, equipment and operational work streams.

The acquisition of Moretrench has given Keller new niche geotechnical products for groundwater control, such as dewatering and ground freezing. We will use the Keller network to bring these products to wider geographies and offer customers an even broader choice of solutions.

We also look for opportunities to transfer products appropriately across the group. Good examples this year include the successful transfer of our jet grouting technology to India, and our first use of cutter soil mixing in Canada.

We have also continued our equipment innovation this year with the development of a new vibro rig. This has upgraded controls automation and a new stone feed system (the “double lock” system) that allows for uninterrupted operation and significant productivity gains.

Our projects

We worked on around 7,000 projects throughout the world in 2018. These continue to set the standard in the industry and to enhance Keller’s reputation for providing innovative solutions, combined with excellent execution focused on our customers’ needs. Average project size is still comparatively small at around £325k per project. Local and smaller projects remain our foundation, supported by our extensive branch network (around 190 locations) and our skilled local teams who know their markets and customers well.

However we are also taking advantage of the wider global trend towards a larger and more complex project mix which we see as an opportunity. A more connected Keller allows us to combine resources to offer solutions and compete on these projects.

Looking more broadly, while we are proud of our customer and industry reputation, we still see significant opportunity to improve project management rigour and the predictability of project outcomes. This is an area of sharpened focus for us in 2019 and beyond.

Safety

The safety of our employees is a priority for the group. We were particularly saddened by the deaths of three of our Keller colleagues in separate accidents during 2018; two in the US and one in Brazil. Any loss of life is taken very seriously and we continue to strive for a zero harm culture. The accidents have all been thoroughly investigated and analysed with lessons shared across the group.

We continue to make substantive progress regarding safety, with a strong and industry-leading track record. This is demonstrated by the 69% decrease in the last five years in our accident frequency rate. However we must continue to work hard in this arena. We are also focussed on decreasing one of our major risks, rig overturns, launching a group wide “working platform” standard that all projects will comply with.

Group-wide Business Improvement Programme

We have also appointed a Director of LEAN and are developing a Keller LEAN programme that we will progressively embed across the group over the next few years. The early pilot events have shown significant promise. The associated tools focus on improving productivity, reducing volatility and removing waste from our processes and products. Our 5S programme across all our yards is improving safety and project performance.

In the digital arena, our Keller DAQ (Keller Data Acquisition) project will give project leaders a standard interface to track key information from their sites, allowing for improved assurance and problem solving. The standard data set will also allow global real-time visibility of all Keller projects, allowing us to further target improvement in estimating, design, quality and productivity. Keller DAQ will be progressively rolled out over the next three years.

We continue to advance our procurement efforts and have gained good traction with some of our global and continental suppliers in the last twelve months. For example in North America we now have around 40% of our external addressable spend covered by rebate deals, up from 20% in 2016.

Our business improvement initiatives are deeply embedded within the group and are driving the operational and cultural changes that were originally intended from the programme. Increasing scrutiny of externally published numbers is not compatible with the more approximate and cultural nature of our internal tracking of these initiatives and we have therefore made the decision that we will not be reporting the financial impact of these initiatives in the future. We will, however, continue to report the qualitative benefits of these initiatives externally.

People and leadership

Throughout the year we have continued to strengthen our leadership at both group and business unit level, and have bolstered the executive team with new appointments, both internally and from outside the business – including Group Chief Financial Officer, Divisional President - North America, Divisional President – APAC, and group heads of both HSEQ and Strategy and Business Development. During 2018 we also strengthened our leadership in North America via the creation of a Chief Operating Officer role covering all of Keller's foundation businesses, and acquired experienced leaders via the Moretrench acquisition. In EMEA we made internal leadership appointments for our North West Europe Business Unit; and in APAC we made leadership changes in our underperforming ASEAN and Waterway Business Units.

The Project Manager Academy, which focuses on people, commercial and technical leadership skills, also continued to successfully improve core business skills. Our Field Leadership Academy provides a similar level of high-quality training for our front-line supervisors. We continue to strengthen our business units through good-quality functional engagement and proactive benchmarking of our underlying capabilities and output KPIs.

Strategic priorities for 2019

We remain committed to our strategy of connecting and professionalising the group, and this will continue to be an enduring focus for management. The restructuring of 2018 has given us a good platform from which to reduce sources of volatility, and additional sharpening of the geographic and product portfolio will be under review. We will further strengthen our risk management and controls environment and are creating the new role of Head of Risk Management for the group, and will continue to enhance our project management practices.

We will also take a more conservative approach regarding the balance sheet. This will be achieved through reduced capital expenditure, no material M&A and a heightened focus on operational and cash management.

Recognising the current sentiment of the equity capital markets towards the UK construction sector, and despite the robust health of our balance sheet and our strong cash flow generation, the group is updating its debt leverage guidance from a previous range of 1.5x-2.0x, to 1.0x-1.5x, with the 2019 year-end target to be in that range.

Outlook

Overall market fundamentals are healthy and we remain well positioned to benefit from the global trends of urbanisation and infrastructure growth.

In North America the outlook is good with robust markets and solid growth expected, and an improvement in margin anticipated as cost increases at Suncoast start to be fully passed through.

In EMEA, we benefitted from the large, highly profitable projects in the first half of 2018 which will not repeat in 2019. These projects aside, the outlook in our main markets of Continental Europe is positive and we therefore expect continued progress in the core business.

In APAC, the decision to exit ASEAN heavy foundations will lead to a revenue decline in 2019. Our main APAC markets remain mixed, but we expect that the measures already taken will return the division to profit in the second half of the year.

In 2019 overall we expect revenue to be broadly flat with an improvement in margin and a good recovery in profit. The profit improvement, together with a focus on cash generation, means we expect debt leverage to reduce significantly by the year end.

Operating review

North America

	2018 £m	2017 £m	Constant currency
Revenue	**1,161.4**	968.7	+24%
Underlying operating profit	**78.6**	78.7	+3%
Underlying operating margin	**6.8%**	8.1%	
Order book – next 12 months*	**531.7**	448.1	+19%

* Comparative order book stated at constant currency

In North America, which accounts for around half the group's revenue, reported revenue increased by 20%, with constant currency revenue up 24%. Underlying operating profit was £78.6m, up 3% on a constant currency basis and the underlying operating margin decreased from 8.1% to 6.8%.

Total construction spend in the US for the year to November was 4% up on the prior year. Public expenditure on construction grew by 7%, residential by 4% and private non-residential by 3%.

All our businesses had good revenue growth, benefitting from the positive market conditions. The overall margin declined, reflecting a decrease at Suncoast because of material cost increases, as well as general adverse North America project mix, claims income and performance in the second half, as compared to a strong second half in 2017. Data centre projects were a notable highlight of the year.

The group's largest North American business, Hayward Baker, saw strong revenue growth but profit below the record 2017 level. Its business model of undertaking a wide variety of small to medium sized contracts across a broad range of products and geographies continues to produce good results.

The integration of Moretrench, acquired in March 2018, has gone well, with the business now successfully integrated. Cost reductions have exceeded plan and the nine months of post-acquisition profits were ahead of our original expectations. We are now starting to see revenue synergies, with Moretrench's specific niche products of ground freezing and dewatering being offered through the Keller network.

Elsewhere, the group's three US piling businesses (Case, McKinney and HJ Foundation) all improved both revenue and profits. In Bencor there has been no change to the position announced in November 2018 regarding the adjustment due to the scope increase on a large long-term contract. We continue to negotiate the adjustment with the client and remain confident in the position we have taken.

Suncoast, the group's post-tension business which mainly serves the residential construction market, had healthy revenue growth in 2018. However, its profits reduced by £7m year-on-year as a result of increases in steel prices that it was unable to pass on to customers in full, and the record rainfall in Texas in September and October. The run-rate margin has now been restored by passing these costs on to our customers.

Keller Canada is making good progress on the east coast but continues to operate in a difficult market in the mid-west. The business substantially grew its capability and presence in Vancouver and is now better placed to take advantage of a strong market on the west coast of Canada.

We are continuing to see increased levels of co-operation and collaboration across the North American businesses and continue to look at opportunities to run the division in a more efficient and integrated way. We are actively harmonising business processes where appropriate, looking to introduce more digitisation wherever beneficial, and taking steps to leverage the scale of the business, for example in procurement, IT and training. From a project perspective, the businesses are increasingly teaming up to win and execute work. The division's most successful major project in the year involved three Keller companies working together and we are hopeful of further work at this site in 2019.

Looking forward, the year-end North American order book of work to be undertaken over the next twelve months was 19% above last year, giving confidence for 2019.

Europe, Middle East & Africa (EMEA)

	2018 £m	2017 £m	Constant currency
Revenue	**668.2**	737.2	-8%
Underlying operating profit	**39.7**	53.3	-24%
Underlying operating margin	**5.9%**	7.2%	
Order book – next 12 months*	**242.8**	264.1	-8%

* Comparative order book stated at constant currency

In EMEA, constant currency revenue decreased by 8% and underlying constant currency operating profit decreased by 24%. The underlying operating margin decreased from 7.2% to 5.9%.

This significantly lower result is, as previously flagged, the consequence of two large projects coming to an end in the first half of 2018, including the Caspian project. The completion of these contracts resulted in a benefit to 2018 of £16m compared to the full year benefit in 2017 of £45m. Excluding the effect of these significant individual projects, the underlying EMEA performance improved considerably in 2018.

All our core businesses in continental Europe continued to benefit from a sound market environment and, as such, performed well. South East Europe recorded another record year. Our operations in Germany continued to grow on the basis of ongoing high demand and extended product offerings.

The UK, representing only 3% of overall group revenue, experienced a generally hesitant commercial investment climate. However as major infrastructure projects are developing in the UK, including HS2, we expect the market for geotechnical work to pick up noticeably towards the end of 2019, extending well into 2020 and 2021.

Our operations in the Middle East experienced a relatively quiet year following the completion of large projects in Abu Dhabi and Egypt. New projects continue to develop slowly resulting in lower utilisation in the second half of 2018. We have secured some new projects in the region and, on the basis of improving fundamentals, we see the prospects for the Middle East as positive.

Our French Speaking Countries business unit performed solidly, helped by good project performance in the Maghreb region. Our geotechnical portfolio of near-shore marine solutions, stone columns to mitigate liquefaction and a range of piling solutions, has secured some interesting projects particularly in Morocco and Algeria. The French domestic market was characterised by good demand around Paris leading to niche opportunities across the country.

Brazil and South Africa both experienced a difficult year reflecting their geo-political and macroeconomic environments. Both countries suffered heavy margin pressure requiring us to substantially adapt our local capacity. We have taken proactive measures to scale back our operations and, as a result, to maintain bidding discipline. The challenges in South Africa have been compensated to an extent via our strong presence in the Sub-Saharan region. We continue to carefully watch the development of the geopolitical situation in Brazil and will respond appropriately to developments.

The year-end EMEA order book of work to be undertaken over the next twelve months, while at a healthy level, was around 8% down on this time last year reflecting the run-off of the large projects. Excluding these, it was 4% down and overall represents a healthy level.

Asia-Pacific (APAC)

	2018 £m	2017 £m	Constant currency
Revenue	**394.9**	364.7	+13%
Underlying operating loss	**(18.0)**	(16.5)	-10%
Underlying operating margin	**(4.6)%**	(4.5)%	
Order book – next 12 months*	**141.3**	246.7	-43%

* Comparative order book stated at constant currency

In APAC, constant currency revenue was up 13% with good increases in both India and Australia. However the division recorded an operating loss of £18.0m due to deteriorating ASEAN market conditions and poor project performance in ASEAN and Waterway, prompting a strategic review of both businesses.

In ASEAN, we completed a thorough review of our product and business portfolio, in the context of the current political and competitive landscape. As a result of deterioration in the Malaysian market conditions and disappointing project performance, we took the decision to downsize the business to focus on those product lines offering the greatest opportunity to leverage our market-leading technologies. We therefore decided to undertake a managed exit of our Heavy Foundations activities (bored piling, driven piling and diaphragm walls) in Singapore and Malaysia, which have become highly commoditised and continue to see heavy competitive and pricing pressure. These operations had a combined annual revenue of approximately £60m. Going forward, we are focusing on higher margin Ground Improvement activities (vibro, grouting and deep soil mixing). The restructuring of the business is now substantially complete although some piling projects extend through the first half of 2019.

In Waterway, we took the decision to exit the highly congested Australian bridge superstructure market and refocus on higher margin marine infrastructure projects. Whilst Austral and Waterway retain their independent brands and operations, we are sharing key leadership roles and functional support between the two business units, reducing overhead and improving business processes. We continue to expect that legacy lower margin contracts in Waterway will be substantially completed by the end of H1 2019.

Austral and Waterway are strategically aligning to pursue a selection of east coast marine projects predominantly in the Defence sector.

Austral, our near shore marine business which operates mainly in western Australia leveraging good relationships with major mining groups, had a record year due to a strengthening in investment by the mining industry in the Pilbara. The business has good tender and prospects lists and is set for another strong year in 2019.

The group’s geotechnical business in Australia saw a year of consolidation as it adjusted to a softening in the property sector and a government shift towards major transport infrastructure expenditure. This segment of the market offers good revenue opportunities but at lower profitability levels. The business returned to profit in 2018 but the outlook for 2019 remains muted. Our large Melbourne Metro project is experiencing client-driven delays that are subject to a claim, and this claim is not yet recognised in our 2018 results.

Keller India had another good year in 2018 and has a healthy pipeline of major infrastructure prospects ahead for 2019.

The year-end APAC order book of work to be undertaken over the next twelve months was down 43% versus last year: particularly impacted by a rebasing in ASEAN, and with some softening in the three Australian businesses. All three Australian businesses have a strong prospect list however, and a higher than normal list of tenders under review. A number of significant tenders will be decided late in the first quarter of 2019. We continue to focus on better leveraging the combined strength of Keller companies in Australia.

We expect that the APAC division will return to profit in H2 2019.

Chief Financial Officer's review

A summary income statement with explanatory discussion of the key items is provided below:

	2018 £m	2017 £m
Revenue	2,224.5	2,070.6
Underlying operating profit	96.6	108.7
Underlying operating profit %	4.3%	5.2%
Non underlying items	(71.6)	12.6
Statutory operating profit	25.0	121.3

Revenue

Revenue at £2,224.5m nominally increased by 7% (2017: £2,070.6m) with a 4% headwind from foreign exchange, reflecting the strengthening of sterling, partially eroding a constant currency growth of 11%. The acquisition of Moretrench in March provided a 5% benefit to revenue and the group's organic growth at constant currency of 6% makes up the balance. North America, absent acquisitions, grew organically by 14%, whilst in EMEA the conclusion of two large projects in the Caspian region and Middle East overshadowed a growth of 10% elsewhere in the division to generate an 8% reduction overall. APAC revenue was up 13% mainly due to strong growth in Austral and Keller India.

We continue to have a good balance and diversification across geographies, product lines, market segments and end customers. Keller's largest customer represented less than 2% of the group's revenue (2017: 4%). The group's top 10 customers represent 10% of revenue (2017: 13%). The group operated on around 7,000 projects in the year with an average spend of £325k per contract, evidencing the benefit of aggregation that the group enjoys in terms of customer exposure and project execution.

2018 revenue is on an IFRS15 basis whilst 2017 revenue is under IAS11 and IAS18 but there is no material difference.

Revenue split by geography

£m	North America	EMEA	APAC	Total
2018				
H1	534.3	324.7	216.1	1,075.1
H2	627.1	343.5	178.8	1,149.4
Total	**1,161.4**	**668.2**	**394.9**	**2,224.5**
2017				
H1	474.5	346.4	170.2	991.1
H2	494.2	390.8	194.5	1,079.5
Total	**968.7**	**737.2**	**364.7**	**2,070.6**

Underlying operating profit

Underlying operating profit decreased to £96.6m (2017: £108.7m), with the headwind of unfavourable foreign exchange rates from stronger sterling causing a further 3% reduction to the constant currency reduction of 8%. The acquisition of Moretrench contributed 9% and the group's organic performance accounted for the remaining 17% reduction.

Organic profitability in North America, absent Moretrench, reduced 9% with the adverse raw material pricing at Suncoast being the largest single component of this decline. The conclusion of the two large Caspian region and Middle East projects accounted for a £29m reduction in EMEA year on year, with an organic growth of over 300% for the remainder of the division when the impact of these jobs is removed from both 2017 and 2018. APAC reported an underlying £18.0m loss for the year, entirely attributable to the poor business performances in ASEAN and Waterway. In 2017, the £16.5m underlying APAC loss was largely as a result of two major contracts in Australia.

	Revenue £m		Underlying operating profit £m		Underlying operating profit margin %	
Year Ended	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Division						
North America	1,161.4	968.7	78.6	78.7	6.8%	8.1%
EMEA	668.2	737.2	39.7	53.3	5.9%	7.2%
APAC	394.9	364.7	(18.0)	(16.5)	(4.6)%	(4.5)%
Central	-	-	(3.7)	(6.8)		
Group	**2,224.5**	**2,070.6**	**96.6**	**108.7**	**4.3%**	**5.2%**

Share of post-tax results from joint ventures

In 2018, the group recognised a post-tax profit of £1.6m (2017: £nil), being its share of the post-tax results from joint ventures. Dividends totalling £0.9m were received in the period.

Non-underlying operating costs

Non-underlying operating costs totalled £64.2m in 2018, including £61.4m as a result of group restructuring activities, as follows:

Exceptional restructuring costs: On 22 November 2018, the group announced a group-wide restructuring programme of portfolio and capacity actions. The group has taken a £30.1m restructuring charge, of which £21.6m was non-cash, relating to asset write-downs, redundancy costs and other reorganisation charges. Affected business units are ASEAN, Waterway, Brazil and Franki Africa. This includes the write-down of surplus equipment to current market values.

Goodwill impairment: A £30.1m goodwill impairment charge relates to the ASEAN Heavy Foundations, Waterway, Franki Africa, Brazil and Wannenwetsch cash-generating units.

Other: A £1.2m impairment of intangible assets relating to the Tecnogeo and Franki Africa trade names capitalised on acquisition.

The remaining non-underlying operating costs were £0.4m of contingent consideration provided on the Geo Instruments acquisition, £1.1m of acquisition costs and a £1.3m charge relating to the estimated impact of equalising the Guaranteed Minimum Pension entitlement for men and women in the UK defined benefit pension scheme.

Amortisation of acquired intangibles

The £7.9m of amortisation of acquired intangible assets relates mainly to the Keller Canada, Austral, Bencor and Moretrench acquisitions (2017: £9.0m).

Other operating income

A £0.5m non-underlying credit (2017: £2.2m credit) relating to changes in estimated contingent consideration payable in respect of the Austral and Bencor acquisitions has been recognised.

Further details of non-underlying items are set out in note 8 to the consolidated financial statements.

Statutory operating profit

Statutory operating profit of £25.0m (2017: £121.3m) reflects an underlying operating profit of £96.6m (2017: £108.7m) and non-underlying items totalling a cost of £71.6m (2017: credit of £12.6m).

Finance costs

Underlying net finance costs were £16.1m (2017: £10.0m). Around half of the increase relates to a £3.1m credit in 2017 relating to the US non-qualifying deferred compensation plan. The majority of the remaining increase relates to the additional borrowings assumed for the acquisition of Moretrench. Excluding these additional borrowings, average net borrowings during the year were consistent with 2017 and have not had a material impact on the year on year interest charge. After a £0.5m non-underlying interest charge (2017: £0.7m), statutory net finance costs increased from £10.7m in 2017 to £16.6m in 2018.

Taxation

The group's underlying effective tax rate was 28.0%, compared to the 2017 effective rate of 25.0%. The 2018 tax charge benefitted from a reduction in the US corporation tax rate, however 2017 included a £9.7m non-cash credit as a result of the revaluation of US deferred tax liabilities following US tax reforms.

A non-underlying tax credit of £0.3m (2017: £1.6m) has been recognised, representing the net tax impact of the 2018 non-underlying items.

Earnings per share

Underlying diluted earnings per share decreased by 22% to 79.1p (2017: 101.8p), in line with the decrease in the group's underlying profit after tax. Statutory earnings per share decreased to (20.6)p (2017: 120.5p).

Dividend

The Board has recommended a final dividend of 23.9p per share (2017: 24.5p per share), which brings the total dividend for the year to 35.9p (2017: 34.2p), an increase of 5% for the year. The 2018 dividend earnings cover, before non-underlying items, was 2.2x (2017: 3.0x).

The group's policy on dividends is to increase the dividend sustainably so that the group is able to grow, or at least maintain, the level of dividend through the market cycle. Keller Group plc has distributable reserves of £130.8m at 31 December 2018 that are available immediately to support the dividend policy, which compares to the proposed full year dividend for 2018 of £25.9m. Keller Group plc is a non-trading investment company that derives its profits from dividends paid by subsidiary companies. The dividend policy is therefore impacted by the performance of the group which is subject to the group's principal risks and uncertainties as well as the level of headroom on the group's borrowing facilities and future cash commitments and investment plans.

Acquisitions

The group acquired Moretrench American Corporation on 29 March 2018 for a gross cash consideration of £67.7m ($90m). The acquisition was debt funded from existing facilities. The group also acquired Sivenmark Maskintjanst AB on 13 June 2018 for £2.1m (SEK 24.6m). In 2018, the acquisitions contributed £96.3m to revenue and a £5.5m net profit.

Working capital

Net working capital increased from £181.3m in 2017 to £216.8m. The increase largely relates to working capital acquired with Moretrench and Sivenmark and exchange movements. The £26.0m cash flow from reduction in receivables during the year was broadly offset by an £8.0m increase in inventory and a £16.5m reduction in payables.

Capital expenditure

The group continues to manage its capital expenditure carefully whilst investing in upgrading and replacing equipment where appropriate. The Asset Replacement Ratio (calculated by dividing gross capex spend by the depreciation charge) decreased slightly to 122% (2017: 125%).

Free cash flow

The group's free cash flow of £58.0m (2017: £23.4m) is more than sufficient to fund, in cash terms, the full value of the payment in relation to the proposed final 2018 dividend of £17.2m (2017: £17.6m).

Operating and free cash flow

£m	**2018**	**2017**
Underlying operating profit	96.6	108.7
Depreciation and amortisation	70.9	68.5
Underlying EBITDA	**167.5**	**177.2**
Non-cash items	3.6	5.7
Dividends from joint ventures	0.9	-
(Increase)/decrease in working capital	1.5	(40.9)
Outflows from provisions and retirement benefit liabilities	(10.1)	(5.9)
Net capital expenditure	(77.1)	(74.5)
Sale of other non-current assets	3.5	-
Operating cashflow	**89.8**	**61.6**
Operating cashflow to operating profit	**93%**	**57%**
Net interest paid	(15.1)	(12.2)
Cash tax paid	(16.7)	(26.0)
Free cash flow	**58.0**	**23.4**
Dividends paid to shareholders	(26.3)	(21.2)
Acquisitions	(77.5)	(6.5)
Non-underlying items	(5.2)	72.6
Foreign exchange movements	(5.7)	7.8
Movement in net debt	**(56.7)**	**76.1**
Opening net debt	**(229.5)**	**(305.6)**
Closing net debt	**(286.2)**	**(229.5)**

Financing facilities and net debt

The group's term debt and committed facilities principally comprise $125m of US private placements which mature between 2021 and 2024 and a £375m multi-currency syndicated revolving credit facility expiring in November 2023. At the year end, the group had undrawn committed and uncommitted borrowing facilities totalling £213.6m.

In November, the group agreed to renew its revolving credit facility at improved terms and rates, increasing the facility to £375m with a £200m accordion feature. The facility has a contractual maturity of 13 November 2023, with an option to extend the facility by two further one year extensions by mutual consent.

The most significant covenants in respect of our main borrowing facilities relate to the ratio of net debt to underlying EBITDA, underlying EBITDA interest cover and the group's net worth. The group is operating well within all of its covenant limits. The most important is net debt to underlying EBITDA and at the year end the group's net debt to underlying EBITDA ratio, calculated on a covenant basis, was 1.7x, well within the limit of 3.0x.

Recognising the current sentiment of the equity capital markets towards the UK construction sector, and despite the robust health of our balance sheet and our strong cash flow generation, the group is updating its debt leverage guidance from a previous range of 1.5x-2.0x, to 1.0x-1.5x, with the 2019 year-end target to be within that range.

Based on net assets of £445.3m, year-end gearing was 64% (2017: 49%), due to the acquisition of Moretrench.

The average month end net debt during 2018 was £339m and the minimum headroom during the year on the group's main banking facility was £80.5m, in addition to a cash balance at that time of £78.0m. The group had no material discounting or factoring in place during the year and given the small value and short term nature of the majority of the group's contracts, the incidence of prepayments is very low.

Provision for pension

The group has defined benefit pension arrangements in the UK, Germany and Austria.

The group's UK defined benefit scheme is closed to future benefit accrual. The last actuarial valuation of the UK scheme was as at 5 April 2017, when the market value of the scheme's assets was £45.0m and the scheme was 71% funded on an ongoing basis. Following completion of the valuation, the level of contributions have increased to £2.4m a year with effect from 1 July 2018, a level which will be reviewed following the next triennial actuarial valuation. The 2018 year-end IAS 19 valuation of the UK scheme showed assets of £45.2m, liabilities of £56.6m and a pre-tax deficit of £11.4m.

In Germany and Austria, the defined benefit arrangements only apply to certain employees who joined the group prior to 1991. The IAS 19 valuation of the defined benefit obligation totalled £16.5m at 31 December 2018. There are no segregated funds to cover these defined benefit obligations and the respective liabilities are included on the group balance sheet.

All other pension arrangements in the group are of a defined contribution nature.

Currencies

The group is exposed to both translational and, to a lesser extent, transactional foreign currency gains or losses through fluctuations in foreign exchange rates through its global operations. The group's primary currency exposures are sterling, US dollar, Canadian dollar, euro, Singapore dollar and Australian dollar.

Translational gains or losses: With the group reporting in sterling but conducting business in other currencies, fluctuation in sterling can result in significant currency translation effects on the primary statements and associated balance sheet metrics, such as net debt and working capital.

Transactional gains or losses: With a large proportion of the group's operating costs matched with corresponding revenues in the same currency, the impacts of transactional foreign exchange gains or losses are limited and are recognised in the period in which they arise.

The following significant exchange rates applied:

	2018		**2017**	
	Closing	**Average**	**Closing**	**Average**
USD	1.27	1.33	1.35	1.29
CAD	1.74	1.73	1.69	1.67
EUR	1.11	1.13	1.13	1.14
SGD	1.74	1.80	1.80	1.78
AUD	1.80	1.79	1.73	1.68

Treasury policies

Currency risk

The group faces currency risk principally on its net assets, most of which are in currencies other than sterling. The group aims to reduce the impact that retranslation of these assets might have on the balance sheet by matching the currency of its borrowings, where possible, with the currency of its other net assets. A significant portion of the group's borrowings are held in US dollars, Canadian dollars, euros, Australian dollars and Singapore dollars, in order to provide a hedge against these currency net assets.

The group manages its currency flows to minimise currency transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the group relate to repatriation of profits, intra-group loan repayments and any foreign currency cash flows associated with acquisitions. The group's foreign exchange cover is executed primarily in the UK.

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

Interest rate risk

Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose and term of the financing. As at 31 December 2018, approximately 90% of the group's third-party borrowings bore interest at floating rates.

Credit risk

The group's principal financial assets are trade and other receivables, bank and cash balances and a limited number of investments and derivatives held to hedge certain of the group's liabilities. These represent the group's maximum exposure to credit risk in relation to financial assets.

The group has stringent procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. Customer credit risk is mitigated by the group's relatively small average contract size, its diversity, both geographically and in terms of end markets, and by taking out credit insurance in many of the countries in which the group operates. No individual customer represented more than 2% of revenue in 2018.

The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution.

Return on capital employed

Return on capital employed is defined at group level as underlying operating profit divided by the accounting value of equity attributable to equity holders of the parent plus net debt plus retirement benefit liabilities. Return on capital employed in 2018 was 13.0%, lower than the prior year (2017: 15.1%) driven by lower profitability and higher capital employed following the acquisition of Moretrench.

ASEAN controls

On 11 October the group announced that as a consequence of deteriorating ASEAN market conditions, notably Malaysia, and a reassessment of project performance in ASEAN and Waterway there was a material downgrading in the profit performance in the APAC Division. Whilst it was changes in the management of these two business units that triggered this event, the root cause originated mainly from weaknesses in certain key project controls and to a lesser extent accounting process failings. These control weaknesses have been thoroughly investigated and a comprehensive remediation plan enacted. The execution of the plan is now substantially complete.

Impact of Brexit

The UK referendum vote to leave the European Union has led to a period of prolonged economic and political uncertainty in the country. Whilst this has impacted our operations in the UK, the group's UK business represents less than 3% of group revenue. Depending upon the nature of the final Brexit agreement, there may be further adverse operational impacts in the form of cross border raw material and personnel movements and/or additional burdens to the dividend and treasury flows within the group. Any material additional movements in exchange rates may also impact the headroom of the group's debt facilities which are mainly denominated in sterling. The Board has taken the above effects into account in its financial scenario modelling and its consideration in respect of the Viability and Going Concern Statements. Overall, the Board does not envisage any sustained material threat to the group's business performance.

IFRS 16 'Leases'

IFRS 16 'Leases' will become effective from 1 January 2019. For the avoidance of doubt, the information provided, as well as any forward looking guidance, does not factor in the impact of this new standard. The adoption of IFRS 16 will not impact the banking covenants as the calculations will continue to be based on the existing accounting treatment.

Principal risks

The group operates globally across many geotechnical market sectors and in varied geographic markets. The group's performance and prospects may be affected by risks and uncertainties in relation to the industry and the environments in which it undertakes its operations around the world. Those risks include: financial risks – the inability to finance our business; market risk – a rapid downturn in our markets; strategic risk – the failure to procure new contracts, losing market share, non-compliance with our Code of Business Conduct; operational risk – product and/or solution failure, the ineffective management of our contracts, causing a serious injury or fatality to an employee or member of the public, not having the right skills to deliver.

The group is alert to the challenges of managing risk and has systems and procedures in place across the group to identify, assess and mitigate major business risks. As part of the long-term strategy the group continues to improve its detailed process of project risk identification and mitigation from contract tender through to project completion.

The directors have reviewed the principal risks and uncertainties and are satisfied that they are relevant and appropriate. A full review of the group's principal risks and uncertainties is given in the Strategic Report within the group's Annual Report and Accounts.

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 Underlying £m	2018 Non-underlying items (note 8) £m	2018 Statutory £m	2017 Underlying £m	2017 Non-underlying items (note 8) £m	2017 Statutory £m
Revenue	4	**2,224.5**	**–**	**2,224.5**	2,070.6	–	2,070.6
Operating costs	6	**(2,129.5)**	**(64.2)**	**(2,193.7)**	(1,961.9)	(1.6)	(1,963.5)
Amortisation of acquired intangible assets		**–**	**(7.9)**	**(7.9)**	–	(9.0)	(9.0)
Other operating income		**–**	**0.5**	**0.5**	–	23.2	23.2
Share of post-tax results of joint ventures	16	**1.6**	**–**	**1.6**	–	–	–
Operating profit/(loss)	3	**96.6**	**(71.6)**	**25.0**	108.7	12.6	121.3
Finance income	9	**0.6**	**–**	**0.6**	3.8	–	3.8
Finance costs	10	**(16.7)**	**(0.5)**	**(17.2)**	(13.8)	(0.7)	(14.5)
Profit/(loss) before taxation		**80.5**	**(72.1)**	**8.4**	98.7	11.9	110.6
Taxation	11	**(22.5)**	**0.3**	**(22.2)**	(24.7)	1.6	(23.1)
Profit/(loss) for the period		**58.0**	**(71.8)**	**(13.8)**	74.0	13.5	87.5
Attributable to:							
Equity holders of the parent		**57.0**	**(71.8)**	**(14.8)**	73.6	13.5	87.1
Non-controlling interests		**1.0**	**–**	**1.0**	0.4	–	0.4
		58.0	**(71.8)**	**(13.8)**	74.0	13.5	87.5
Earnings/(loss) per share							
Basic	13	**79.2p**		**(20.6)p**	102.2p		121.0p
Diluted	13	**79.1p**		**(20.6)p**	101.8p		120.5p

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
(Loss)/profit for the period		**(13.8)**	87.5
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**8.8**	(27.0)
Net investment hedge losses	24	**–**	(0.7)
Cash flow hedge gains/(losses) taken to equity	24	**1.0**	(3.3)
Cash flow hedge transfers to income statement	24	**(1.0)**	3.4
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit pension schemes	30	**0.8**	1.4
Tax on remeasurements of defined benefit pension schemes	11	**(0.1)**	(0.3)
Other comprehensive income/(loss) for the period, net of tax		**9.5**	(26.5)
Total comprehensive (loss)/income for the period		**(4.3)**	61.0
Attributable to:			
Equity holders of the parent		**(5.4)**	61.0
Non-controlling interests		**1.1**	–
		(4.3)	61.0

Consolidated balance sheet
As at 31 December 2018

	Note	**2018 £m**	2017[1] £m
Assets			
Non-current assets			
Intangible assets	14	**153.4**	170.9
Property, plant and equipment	15	**422.0**	399.2
Investments in joint ventures	16	**4.6**	3.7
Deferred tax assets	11	**26.9**	39.3
Other assets	17	**21.5**	23.7
		628.4	636.8
Current assets			
Inventories	18	**80.3**	72.6
Trade and other receivables	19	**610.9**	589.2
Current tax assets		**14.7**	18.7
Cash and cash equivalents	20	**110.5**	67.7
		816.4	748.2
Total assets	3	**1,444.8**	1,385.0
Liabilities			
Current liabilities			
Loans and borrowings	24	**(42.8)**	(48.3)
Current tax liabilities		**(18.6)**	(19.1)
Trade and other payables	21	**(474.4)**	(480.5)
Provisions	22	**(10.8)**	(10.3)
		(546.6)	(558.2)
Non-current liabilities			
Loans and borrowings	24	**(353.9)**	(248.9)
Retirement benefit liabilities	30	**(27.9)**	(29.2)
Deferred tax liabilities	11	**(37.9)**	(45.5)
Provisions	22	**(14.6)**	(13.0)
Other liabilities	23	**(18.6)**	(18.0)
		(452.9)	(354.6)
Total liabilities	3	**(999.5)**	(912.8)
Net assets	3	**445.3**	472.2

Consolidated balance sheet (continued)

As at 31 December 2018

	Note	2018 £m	2017[1] £m
Equity			
Share capital	25	**7.3**	7.3
Share premium account		**38.1**	38.1
Capital redemption reserve	25	**7.6**	7.6
Translation reserve		**41.2**	32.5
Other reserve	25	**56.9**	56.9
Retained earnings		**289.3**	326.0
Equity attributable to equity holders of the parent		**440.4**	468.4
Non-controlling interests		**4.9**	3.8
Total equity		**445.3**	472.2

1 Non-current assets shown here does not correspond to the published 2017 consolidated financial statements as a result of re-presenting the comparative balance to show investments in joint ventures separate from other non-current assets. There is no impact on 2017 total non-current assets.

These financial statements were approved by the Board of Directors and authorised for issue on 4 March 2019.

They were signed on its behalf by:

Alain Michaelis
Chief Executive Officer

Michael Speakman
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Translation reserve £m	Other reserve £m	Hedging reserve £m	Retained earnings £m	Attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
At 1 January 2017	7.3	38.1	7.6	59.8	56.9	(0.1)	255.8	**425.4**	4.2	**429.6**
Profit for the period	–	–	–	–	–	–	87.1	**87.1**	0.4	**87.5**
Other comprehensive income										
Exchange differences on translation of foreign operations	–	–	–	(26.6)	–	–	–	**(26.6)**	(0.4)	**(27.0)**
Net investment hedge losses	–	–	–	(0.7)	–	–	–	**(0.7)**	–	**(0.7)**
Cash flow hedge losses taken to equity	–	–	–	–	–	(3.3)	–	**(3.3)**	–	**(3.3)**
Cash flow hedge transfers to income statement	–	–	–	–	–	3.4	–	**3.4**	–	**3.4**
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	1.4	**1.4**	–	**1.4**
Tax on remeasurements of defined benefit pension schemes	–	–	–	–	–	–	(0.3)	**(0.3)**	–	**(0.3)**
Other comprehensive (loss)/income for the period, net of tax	–	–	–	(27.3)	–	0.1	1.1	**(26.1)**	(0.4)	**(26.5)**
Total comprehensive (loss)/income for the period	–	–	–	(27.3)	–	0.1	88.2	**61.0**	–	**61.0**
Dividends	–	–	–	–	–	–	(20.8)	**(20.8)**	(0.4)	**(21.2)**
Share-based payments	–	–	–	–	–	–	2.8	**2.8**	–	**2.8**
At 31 December 2017 and 1 January 2018	7.3	38.1	7.6	32.5	56.9	–	326.0	**468.4**	3.8	**472.2**
Adjustment on initial application of IFRS 15	–	–	–	–	–	–	2.3	**2.3**	–	**2.3**
(Loss)/profit for the period	–	–	–	–	–	–	(14.8)	**(14.8)**	1.0	**(13.8)**
Other comprehensive income										
Exchange differences on translation of foreign operations	–	–	–	8.7	–	–	–	**8.7**	0.1	**8.8**
Cash flow hedge gains taken to equity	–	–	–	–	–	1.0	–	**1.0**	–	**1.0**
Cash flow hedge transfers to income statement	–	–	–	–	–	(1.0)	–	**(1.0)**	–	**(1.0)**
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	0.8	**0.8**	–	**0.8**
Tax on remeasurements of defined benefit pension schemes	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Other comprehensive income for the period, net of tax	–	–	–	8.7	–	–	0.7	**9.4**	0.1	**9.5**
Total comprehensive income/(loss) for the period	–	–	–	8.7	–	–	(14.1)	**(5.4)**	1.1	**(4.3)**
Dividends	–	–	–	–	–	–	(26.3)	**(26.3)**	–	**(26.3)**
Share-based payments	–	–	–	–	–	–	1.4	**1.4**	–	**1.4**
At 31 December 2018	7.3	38.1	7.6	41.2	56.9	–	289.3	**440.4**	4.9	**445.3**

Consolidated cash flow statement
For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Underlying operating profit (as per consolidated income statement)		**96.6**	108.7
Depreciation of property, plant and equipment		**69.7**	67.3
Amortisation of intangible assets		**1.2**	1.2
Share of post-tax results of joint ventures		**(1.6)**	–
Profit on sale of property, plant and equipment		**(1.7)**	(4.0)
Other non-cash movements		**7.0**	9.5
Foreign exchange (gains)/losses		**(0.1)**	0.2
Operating cash flows before movements in working capital		**171.1**	182.9
Increase in inventories		**(8.0)**	(15.7)
Decrease/(increase) in trade and other receivables		**26.0**	(79.1)
(Decrease)/increase in trade and other payables		**(16.5)**	53.9
Change in provisions, retirement benefit and other non-current liabilities		**(10.1)**	(5.9)
Cash generated from operations before non-underlying items		**162.5**	136.1
Cash inflows from non-underlying items: contract dispute		**–**	12.7
Cash outflows from non-underlying items: contract dispute		**(0.8)**	(2.1)
Cash outflows from non-underlying items: restructuring costs		**(4.4)**	–
Cash generated from operations		**157.3**	146.7
Interest paid		**(15.8)**	(12.9)
Income tax paid		**(16.7)**	(26.0)
Net cash inflow from operating activities		**124.8**	107.8
Cash flows from investing activities			
Interest received		**0.7**	0.7
Proceeds from sale of property, plant and equipment		**8.5**	10.5
Proceeds from sale of other non-current assets		**3.5**	–
Acquisition of subsidiaries, net of cash acquired		**(68.4)**	(6.5)
Acquisition of property, plant and equipment		**(85.1)**	(84.2)
Disposal of non-current assets held for sale		**–**	62.0
Acquisition of other intangible assets		**(0.5)**	(0.8)
Dividends received from joint ventures		**0.9**	–
Net cash outflow from investing activities		**(140.4)**	(18.3)

Consolidated cash flow statement (continued)
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from financing activities			
New borrowings		**281.7**	41.6
Repayment of borrowings		**(186.1)**	(135.7)
Cash flows from derivative instruments		**1.5**	0.2
Payment of finance lease liabilities		**(1.6)**	(1.5)
Dividends paid		**(26.3)**	(21.2)
Net cash inflow/(outflow) from financing activities		**69.2**	(116.6)
Net increase/(decrease) in cash and cash equivalents		**53.6**	(27.1)
Cash and cash equivalents at beginning of period		**51.3**	84.0
Effect of exchange rate fluctuations		**(1.2)**	(5.6)
Cash and cash equivalents at end of period	20	**103.7**	51.3

Notes to the consolidated financial statements

1 General information
Keller Group plc ('the parent' or 'the Company') is a company incorporated in the United Kingdom. The consolidated financial statements are presented in pounds sterling (rounded to the nearest hundred thousand), the functional currency of the parent. Foreign operations are included in accordance with the policies set out in note 2.

2 Principal accounting policies
Statement of compliance
The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Basis of preparation
These financial statements do not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but are derived from the 2018 accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies. Those for 2018 will be delivered to the Registrar of Companies and made available on the Company's website at www.keller.com in March 2019. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The carrying value of hedged items are, where relevant, re-measured to fair value in respect of the hedged risk. Except as noted below, these accounting policies have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by subsidiaries.

The consolidated financial statements are prepared on a going concern basis.

Changes in accounting policies and disclosures
The group has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 1 January 2018. The impact of adopting these standards is set out below. There is no significant financial impact on the group financial statements of the other new standards, amendments and interpretations that are in issue for the financial year ending 31 December 2018. These are:

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- Amendments to IAS 40 'Transfers of Investment Property'
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
- Annual improvements to IFRS Standards 2014-2016 Cycle

IFRS 15 – 'Revenue from Contracts with Customers' - The group adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The standard has been adopted retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 January 2018. Accordingly, the information presented for 2017 has not been restated. The effect of initially applying this standard is a £2.3m credit to equity. This is due to the earlier recognition of revenue at our Suncoast business on contracts that involve installation or post-delivery services. Previously all revenue was deferred on these contracts until the contract had been completed, however under IFRS 15, these contracts qualify for over time recognition.

The following table summarises the impact of adopting IFRS 15 on the balance sheet at 1 January 2018:

	As at 1 January 2018		
	As reported under IAS 18 & IAS 11 £m	**Impact of IFRS 15 £m**	**As reported under IFRS 15 £m**
Inventories	72.6	(2.3)	70.3
Current assets	748.2	(2.3)	745.9
Total assets	1,385.0	(2.3)	1,382.7
Trade and other payables	(480.5)	4.6	(475.9)
Current Liabilities	(558.2)	4.6	(553.6)
Total liabilities	(912.8)	4.6	(908.2)
Net assets	472.2	2.3	474.5
Retained earnings	326.0	2.3	328.3
Equity attributable to equity holders of the parent	468.4	2.3	470.7
Total equity	472.2	2.3	474.5

There is no material difference between the IAS 11/IAS 18 and IFRS 15 impact on the balance sheet and income statement as at 31 December 2018.

The accounting policy for revenue recognition at 31 December 2017 is replaced with the following with effect from 1 January 2018:

Revenue recognition (policy effective from 1 January 2018)
Revenue consists of contracts with customers. For each contract, revenue is the amount that is expected to be received from the customer. Where consideration is variable, this is recognised only to the extent that it is highly probable that there will not be a significant reversal. The effect of contract modifications (for example change orders, variations or claims) is accounted for only when the group considers there is an enforceable right to consideration.

Revenue from construction contracts: The majority of the group's revenue is derived from construction contracts. Typically, the group's construction contracts consist of one performance obligation, however for certain contracts (for example where contracts involve separate phases or products that are not highly interrelated) multiple performance obligations exist. Where multiple performance obligations exist, total revenue is allocated to performance obligations based on the relative standalone selling prices of each performance obligation.

Revenue attributed to each performance obligation is recognised over time based on either the input or, where considered more appropriate in relation to certain performance obligations in certain geographies, the output method:

- Input method: Revenue is recognised on the percentage of completion with reference to cost. The percentage of completion is calculated as the costs incurred to date as a percentage of the total costs expected to satisfy the performance obligation. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the percentage of completion calculation in the period in which the circumstances that give rise to the revision become known.
- Output method: Revenue is recognised on the direct measurement of progress based on output, such as units of production relative to the total number of contracted production units.

Revenue is recognised in order to provide a faithful depiction of the value of the work performed by the group over time.

Where it is probable that a loss will arise on the total contract, full provision for this loss is made when the group becomes aware that a loss may arise.

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

Any revenues recognised in excess of billings are recognised as contract assets within trade and other receivables. Any payments received in excess of revenue recognised are recognised as contract liabilities within trade and other payables. There are no significant financing components of contract assets or liabilities.

Revenue from the sale of goods and services: The group's revenue recognised from the sale of goods and services primarily relates to the Suncoast business. These contracts all have a single performance obligation, or a series of distinct performance obligations that are substantially the same. There are typically two types of contract:

a. Delivery of goods: revenue for these contracts is recognised at a point in time, on delivery of the goods to the customer.
b. Delivery of goods with installation and/or post-delivery services: revenue for these contracts is recognised over time by reference to the percentage of completion. The percentage of completion is calculated as the costs incurred to date as a percentage of the total costs expected to satisfy the contract, however this results in most of the revenue being recognised on delivery of the goods to the customer as this forms the majority of the cost to Keller.

Revenue recognition (policy effective prior to 1 January 2018)
Revenue represents the fair value of work done on construction contracts performed during the year on behalf of customers or the value of goods or services delivered to customers. In accordance with IAS 11, contract revenue and expenses are recognised in proportion to the stage of completion of the contract as soon as the outcome of a construction contract can be estimated reliably.

The fair value of work done is calculated using the expected final contract value, based on contracted values adjusted for the impact of any known variations, and the stage of completion, calculated as costs to date as a proportion of total expected contract costs. Bid costs are expensed as incurred.

In the nature of the group's business, the results for the year include adjustments to the outcome of construction contracts, including joint operations, completed in prior years arising from claims from customers or third parties and claims on customers or third parties for variations to the original contract.

Provision against claims from customers or third parties is made in the year in which the group becomes aware that a claim may arise and is considered probable.

Income from variations and claims on customers or third parties is only recognised once agreed, or where there is a high level of certainty in receiving the claim.

Where it is probable that a loss will arise on a contract, full provision for this loss is made when the group becomes aware that a loss may arise.

Revenue in respect of goods and services is recognised as the goods and services are delivered.

IFRS 9 'Financial Instruments'- The group has adopted IFRS 9 'Financial instruments' from 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

The classification and measurement of financial liabilities and derivative instruments remains unchanged from IAS 39. Under IFRS 9, a financial asset is now classified on initial recognition as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). Applying this classification to the group's financial assets does not result in changes to the accounting: trade receivables continue to be recognised at amortised cost and cash and cash equivalents and certain other non-current financial assets continue to be recognised at FVTPL.

With regard to impairment of financial assets, IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The group's bad debts typically arise due to invoices being unpaid for commercial reasons rather than credit default and therefore the group's expected initial credit loss on initial recognition was not material and there has been no change in the overall bad debt provision at 1 January 2018.

As a result of adopting IFRS 9, the accounting policy for trade receivables at 31 December 2017 is replaced with the following with effect from 1 January 2018:

Trade receivables (policy effective from 1 January 2018)
Trade receivables are initially recognised at their transaction price, unless there is a significant financing component, and are carried subsequently at amortised cost. Loss allowances for expected credit losses are deducted on initial recognition from the gross carrying amount of trade receivables. Specific provisions are made where there is a known credit risk.

Trade receivables (policy effective prior to 1 January 2018)
Trade receivables do not carry any interest, are initially recognised at fair value and are carried at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Standards issued but not yet effective
A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these consolidated financial statements. Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the group's financial statements in the period of initial application.

IFRS 16 'Leases' – IFRS 16 will be adopted from 1 January 2019. The standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. These will principally relate to operating leases for properties, machinery and vehicles. The profile of the expense incurred in the income statement for these operating leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the group's finance leases. The group is not a lessor of assets.

The group will adopt IFRS 16 using the modified retrospective approach. The cumulative effect of initially adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information. The lease liabilities on transition will be the present value of lease payments discounted using the incremental borrowing rate. The right-of-use asset will be set at either the carrying amount as if IFRS 16 had been applied since the start of the lease or at an amount equal to the lease liability. This will be determined on a lease-by-lease basis.

The group plans to apply the practical expedients to apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4, to not separate non-lease components from lease components of a contract, to apply a single discount rate to a portfolio of leases with reasonably similar characteristics and is likely to not apply the new lease accounting to operating leases that have a lease term that ends during 2019. The exemptions for short-term leases and leases of low value will also be applied.

In order to establish the impact of adopting IFRS 16 at 1 January 2019, the group collated details of all of its leases that had a total duration of greater than 1 year and input this data into a lease accounting software along with relevant inputs such as the lease specific incremental borrowing rate. Based on the information currently available and the draft policy applied, the group estimates that it will recognise an additional lease liability of between £80m and £120m. An additional right-of-use asset will be recognised and the group is in the process of establishing which transition option will be applied to each lease. The total right-of-use asset is expected to be less than the lease liability. The tax effected difference between the right-of-use asset and lease liability will be the adjustment to opening retained earnings.

Although the adoption of IFRS 16 will replace the straight line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liability, the group does not expect the adoption of IFRS 16 to have a material net effect on profit before tax.

The group has not finalised the testing and assessment of controls over its new lease accounting process, thus the actual impact of adopting IFRS 16 on 1 January 2019 is subject to change until the group presents its first financial statements that include the initial application of the standard.

Basis of consolidation
The consolidated financial statements consolidate the accounts of the parent and its subsidiary undertakings (collectively 'the group') made up to 31 December each year. Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over the entity to affect its returns. Where subsidiary undertakings were acquired or sold during the year, the accounts include the results for the part of the year for which they were subsidiary undertakings using the acquisition method of accounting. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Joint operations
From time to time the group undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS 11. In accordance with IFRS 11, the group accounts for its own share of assets, liabilities, revenues and expenses measured according to the terms of the agreements covering the joint operations.

Joint ventures
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The consolidated financial statements incorporate a share of the results, assets and liabilities of joint ventures using the equity method of accounting, whereby the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment. Losses in excess of the consolidated interest in joint ventures are not recognised except where the group has a constructive commitment to make good those losses. The results of joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Property, plant and equipment acquired under finance leases are capitalised in the balance sheet at the lower of fair value or present value of minimum lease payments and depreciated in accordance with the group's accounting policy. The capital element of the leasing commitment is included as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the income statement, and capital, which reduces the outstanding obligation.

Amounts payable under operating leases are charged to operating costs on a straight-line basis over the lease term.

Foreign currencies
Balance sheet items in foreign currencies are translated into sterling at closing rates of exchange at the balance sheet date. Income statements 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 income statements at closing and average rates of exchange respectively are dealt with in other comprehensive income, along with changes in fair values of associated net investment hedges. All other exchange differences are charged to the income statement.

The exchange rates used in respect of principal currencies are:

	2018	2017
US dollar: average for period	**1.33**	1.29
US dollar: period end	**1.27**	1.35
Canadian dollar: average for period	**1.73**	1.67
Canadian dollar: period end	**1.74**	1.69
Euro: average for period	**1.13**	1.14
Euro: period end	**1.11**	1.13
Singapore dollar: average for period	**1.80**	1.78
Singapore dollar: period end	**1.74**	1.80
Australian dollar: average for period	**1.79**	1.68
Australian dollar: period end	**1.80**	1.73

Interest income and expense
All interest income and expense is recognised in the income statement in the period in which it is incurred using the effective interest method.

Employee benefit costs
The group operates a number of defined benefit pension arrangements, and also makes payments into defined contribution schemes for employees.

The liability in respect of defined benefit schemes is the present value of the defined benefit obligations at the balance sheet date, calculated using the projected unit credit method, less the fair value of the schemes' assets. As allowed by IAS 19, the group recognises the administration costs, current service cost and interest on scheme net liabilities in the income statement, and remeasurements of defined benefit plans in other comprehensive income in full in the period in which they occur.

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

Taxation
The tax expense represents the sum of the tax currently payable and the deferred tax charge.

Provision is made for current tax on taxable profits for the year. Taxable profit differs from profit before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is recognised on temporary differences in line with IAS 12, 'Income Taxes'. Deferred tax assets are recognised when it is considered likely that they will be utilised against future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or to other comprehensive income, in which case the related deferred tax is also dealt with in equity or in other comprehensive income.

Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Depreciation
Depreciation is not provided on freehold land.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment 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%
Short-life plant and equipment	12%
Motor vehicles	25%
Computers	33%

The cost of leased properties is depreciated by equal instalments over the period of the lease or 50 years, whichever is the shorter.

Business combinations
The group accounts for business combinations in accordance with IFRS 3, 'Business Combinations (2008)' using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group.

Costs related to the acquisition are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date with subsequent changes to the fair value being recognised in profit or loss, unless the change was as a result of new information about facts or circumstances existing at the acquisition date being obtained during the measurement period, in which case the change is recognised in the balance sheet as an adjustment to goodwill.

Goodwill and other intangible assets

Goodwill
Goodwill arising on consolidation, representing the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets of the subsidiary undertaking at the date of acquisition, is capitalised as an intangible asset.

The fair value of identifiable net assets in excess of the fair value of purchase consideration is credited to the income statement in the year of acquisition.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually and whenever there is an indication that the goodwill may be impaired in accordance with IAS 36, with any impairment losses being recognised immediately in the income statement. Goodwill arising prior to 1 January 1998 was taken directly to equity in the year in which it arose. Such goodwill has not been reinstated on the balance sheet.

Other intangible assets
Intangible assets, other than goodwill, include purchased licences, software, patents, customer contracts, non-compete undertakings, customer relationships, trademarks and trade names. Intangible assets are capitalised at cost and amortised on a straight-line basis over their useful economic lives from the date that they are available for use and are stated at cost less accumulated amortisation and impairment losses. Useful economic lives do not exceed seven years.

Intangible assets acquired in a business combination are accounted for initially at fair value.

Impairment of assets excluding goodwill
At each balance sheet date the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Capital work in progress
Capital work in progress represents expenditure on property, plant and equipment in the course of construction. Transfers are made to other property, plant and equipment categories when the assets are available for use.

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

Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Financial instruments
Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Derivative financial instruments are accounted for in accordance with IFRS 9 and recognised initially at fair value.

The group uses currency and interest rate swaps to manage financial risk. Interest charges and financial liabilities are stated after taking account of these swaps.

The group uses these swaps and other hedges to mitigate exposures to both foreign currency and interest rates.

Hedges are accounted for as follows:

Cash flow hedges: The effective part of any gain or loss on the hedging instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement. The associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

Fair value hedges: Changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged and any gains or losses on remeasurement are recognised immediately in the income statement.

Net investment hedges: The effective portion of the change in fair value of the hedging instrument is recognised directly in the translation reserve. Any ineffectiveness is recognised immediately in the income statement.

Trade payables
Trade payables are not interest bearing, are initially recognised at fair value and are carried at amortised cost.

Borrowings
Borrowings are recognised initially at fair value less attributable issue costs. Subject to initial recognition, borrowings are stated at amortised cost.

Provisions
A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event and where it is probable that an outflow will be required to settle the obligation.

Financial guarantees
Where group companies enter into financial guarantee contracts to guarantee the indebtedness or obligations of other companies within the group, these are considered to be insurance arrangements, and accounted for as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that the guarantor will be required to make a payment under the guarantee.

Share-based payment
Charges for employee services received in exchange for share-based payment have been made in accordance with IFRS 2.

Options granted under the group’s employee share schemes are equity settled. The fair value of such options has been calculated using a stochastic model, based upon publicly available market data, and is charged to the income statement over the performance period with a corresponding increase in equity.

At the end of each reporting period, the group revises its estimate of the number of options that are expected to vest based on the service and non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Segmental reporting
IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. The group determines the Chief Operating Decision Maker to be the Board of Directors.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group’s other components. Segmental results are presented as operating profit before non-underlying items. Segment assets are defined as property, plant and equipment, intangible assets, inventories and trade and other receivables. Segment liabilities are defined as trade and other payables, retirement benefit liabilities, provisions and other liabilities. The accounting policies of the operating segments are the same as the group’s accounting policies.

Dividends
Interim dividends are recorded in the group’s consolidated financial statements when paid. Final dividends are recorded in the group’s consolidated financial statements in the period in which they receive shareholder approval.

Non-underlying items
Non-underlying items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group. They are items which are exceptional by their size or are non-trading in nature, including amortisation of acquired intangibles and other non-trading amounts, including those relating to acquisitions.

Accounting estimates and judgements
The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and judgements in drawing up the group's consolidated financial statements are in connection with accounting for construction contracts and the carrying value of goodwill.

Construction contracts: The group's approach to key estimates and judgements relating to construction contracts is set out in the revenue recognition policy above. When revenue is recognised based on the output method, such as units of production, there is little judgement involved in accounting for construction contracts as the amount of revenue that has not been certified/accepted by the client is typically small and is usually based on volumes achieved at agreed rates. When revenue is recognised based on the input (cost) method, the main factors considered when making estimates and judgements include the costs of the work required to complete the contract in order to estimate the percentage completion, and the outcome of claims raised against the group by customers or third parties. The group performed around 7,000 contracts during 2018, with the average contract size being approximately £325,0000 and a typical range of between £25,000 and £10 million in value. The majority of contracts were completed in year and therefore there are no estimates involved in accounting for these. For contracts that are not complete at year end, the group estimates the costs to complete in order to measure progress and therefore how much revenue to recognise. The actual outcome of these contracts will differ to the estimate at 31 December and it is reasonably possible that outcomes on these contracts within the next year could be materially different in aggregate to those estimated. It is not possible to quantify the expected impact of this, however the estimated costs to complete are management's best estimate at this point in time and no individual estimate or judgement is expected to have a materially different outcome.

The most significant judgement in accounting for construction contracts relates to revenue recognised on a large long-term public contract where the group is currently negotiating an adjustment due to scope increase. The amount has not yet been agreed with the customer and the timing of settlement is uncertain. However, the group has taken legal advice and concluded that there is a legal entitlement to compensation for the additional work performed and costs incurred, which constitutes an approved contract modification. On this basis, the criteria under IFRS 15 for recognising revenue on this adjustment has been met, however the amount recoverable is a key estimate. It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could be materially different from the estimate. The amount of revenue recognised is less than the amount expected to be recovered and represents an amount where management is confident it is highly probable that a significant reversal of revenue will not occur. Should the actual outcome be significantly less than the amount recognised as revenue, there could be a material reversal of revenue. The amount is expected to be agreed with the customer in the next financial year.

Carrying value of goodwill: The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy set out above. The group estimates the recoverable amount based on value-in-use calculations. These calculations require the use of assumptions, the most important being the forecast revenues and operating margins and the discount rates applied. Further details on the assumptions used are set out in note 14. We expect that it is a low risk that Brexit will have a material financial impact on the group financial statements, or on the carrying value of goodwill for the Keller Limited (UK) cash-generating unit.

The group also uses estimates in assessing the recoverability of deferred tax assets, for which the significant assumption is forecast taxable profits. A change in these forecasts in the next year is not expected to have a material impact on the valuation of these balances.

3 Segmental analysis

The group is managed as three geographical divisions and has only one major product or service: specialist ground engineering services. This is reflected in the group's management structure and in the segment information reviewed by the Chief Operating Decision Maker.

	2018		2017	
	Revenue £m	**Operating profit £m**	Revenue £m	Operating profit £m
North America	**1,161.4**	**78.6**	968.7	78.7
EMEA[1]	**668.2**	**39.7**	737.2	53.3
APAC[2]	**394.9**	**(18.0)**	364.7	(16.5)
	2,224.5	**100.3**	2,070.6	115.5
Central items and eliminations	**–**	**(3.7)**	–	(6.8)
Underlying	**2,224.5**	**96.6**	2,070.6	108.7
Non-underlying items (note 8)	**–**	**(71.6)**	–	12.6
	2,224.5	**25.0**	2,070.6	121.3

	2018					
	Segment assets £m	**Segment liabilities £m**	**Capital employed £m**	**Capital additions £m**	**Depreciation[4] and amortisation £m**	**Tangible and intangible assets £m**
North America	**692.8**	**(215.4)**	**477.4**	**25.8**	**29.1**	**312.6**
EMEA[1]	**388.0**	**(229.6)**	**158.4**	**37.6**	**25.3**	**176.7**
APAC[2]	**211.2**	**(88.6)**	**122.6**	**22.2**	**16.5**	**85.7**
	1,292.0	**(533.6)**	**758.4**	**85.6**	**70.9**	**575.0**
Central items and eliminations[3]	**152.8**	**(465.9)**	**(313.1)**	**–**	**–**	**0.4**
	1,444.8	**(999.5)**	**445.3**	**85.6**	**70.9**	**575.4**

	2017					
	Segment assets £m	Segment liabilities £m	Capital employed £m	Capital additions £m	Depreciation[4] and amortisation £m	Tangible and intangible assets £m
North America	582.0	(185.3)	396.7	24.0	27.8	263.6
EMEA[1]	408.6	(249.7)	158.9	45.7	23.9	185.3
APAC[2]	261.7	(97.5)	164.2	15.3	16.7	120.7
	1,252.3	(532.5)	719.8	85.0	68.4	569.6
Central items and eliminations[3]	132.7	(380.3)	(247.6)	–	0.1	0.5
	1,385.0	(912.8)	472.2	85.0	68.5	570.1

1 Europe, Middle East and Africa
2 Asia-Pacific
3 Central items include net debt and tax balances
4 Depreciation and amortisation excludes amortisation of acquired intangible assets

Revenue and non-current non-financial assets are analysed by country below:

	Revenue		Non-current non-financial assets[5]	
	2018 £m	2017 £m	**2018 £m**	2017 £m
United States	**1,068.0**	886.6	**260.6**	225.7
Australia	**255.5**	238.7	**64.2**	73.7
Germany	**113.3**	95.9	**32.4**	32.1
Canada	**93.4**	80.2	**54.7**	59.4
United Kingdom (country of domicile)	**65.4**	61.2	**22.8**	22.4
Other	**628.9**	708.0	**148.3**	181.8
	2,224.5	2,070.6	**583.0**	595.1

5 Non-current non-financial assets comprise intangible assets, property, plant and equipment and other non-current non-financial assets.

4 Revenue

The group's revenue is derived from contracts with customers. The nature and effect of initially applying IFRS 15 on the group's financial statements is disclosed in note 2. In the following table, revenue is disaggregated by primary geographical market, being the group's operating segments (see note 3) and timing of revenue recognition:

	Revenue recognised on performance obligations satisfied over time £m	Revenue recognised on performance obligations satisfied at a point in time £m	**Total revenue £m**
North America	1,061.1	100.3	**1,161.4**
EMEA	668.2	–	**668.2**
APAC	394.9	–	**394.9**
	2,124.2	100.3	**2,224.5**

In 2017, revenue recognised on construction contracts in accordance with IAS 11 totalled £1,835.4m.

Due to the final contract value not always being agreed at the year end, the contract value, and therefore revenue allocated to a performance obligation, may change subsequent to the year end as variations and claims are agreed with the customer. The amount of revenue recognised in 2018 from performance obligations satisfied in previous periods is £10.7m.

The group's order book comprises the unexecuted elements of orders on contracts that have been awarded. Where a contract is subject to variations, only secured variations are included in the reported order book. As at 31st December 2018 the total order book is £958.1m. Of this amount the order book for contracts with a total duration over 1 year is £185.4m. Revenue on these contracts is expected to be recognised as follows:

	2018 £m
Less than 1 year	**143.2**
1 to 2 years	**42.2**

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

	2018 £m	2017 £m
Trade receivables	**451.7**	439.8
Contract assets	**106.3**	101.2
Contract liabilities	**(41.4)**	(42.9)

Retentions are recognised on invoicing of the associated trade receivable. Included in the trade receivables balance is £106.7m in respect of retentions receivable. Of this amount, £75.5m are to be invoiced in one year with the remaining balance of £31.2m to be invoiced in more than one year. All contract assets and liabilities are current.

Substantially all of the opening balance of contract assets has been billed during 2018 and revenue has been recognised against substantially all of the opening contract liability.

5 Acquisitions

2018 acquisitions
On 29 March 2018, the group acquired 100% of the issued share capital of Moretrench America Corporation, a geotechnical contracting company operating predominantly along the east coast of the US, for cash consideration of £64.7m ($86m). The fair value of the intangible assets acquired represents the fair value of customer contracts at the date of acquisition, customer relationships and the trade name. Goodwill arising on acquisition is attributable to the knowledge and expertise of the assembled workforce, the expectation of future contracts and customer relationships and the operating synergies that arise from the group's strengthened market position. All of the goodwill and intangible assets are expected to be deductible for tax purposes.

On 13 June 2018, the group acquired 100% of the issued share capital of Sivenmark Maskintjanst AB, a sheet piling specialist based in Sweden for cash consideration of £2.1m (SEK 24.6m). The purchase price is a premium of £0.8m (SEK 9.4m) to the fair value of the net assets acquired. This goodwill is attributable to the knowledge and expertise of the assembled workforce, the expectation of future contracts and customer relationships and the operating synergies that arise from the group's strengthened market position.

For both acquisitions the fair value of the total trade receivables is not materially different from the gross contractual amounts receivable and is expected to be recovered in full. In the period to 31 December 2018, the acquisitions contributed £96.3m to revenue and a net profit of £5.5m. Had the acquisitions taken place on 1 January 2018, total group revenue would have been £2,257.3m and underlying profit for the period would have been £58.9m.

Any adjustments made in respect of acquisitions in the period to 31 December 2018 are provisional and will be finalised within 12 months of the acquisition date.

	Moretrench		
	Carrying amount £m	Fair value adjustment £m	Fair value £m
Net assets acquired			
Intangible assets	–	9.7	9.7
Property, plant and equipment	22.2	5.0	27.2
Cash and cash equivalents	8.8	–	8.8
Receivables	30.9	–	30.9
Other assets	11.0	–	11.0
Loans and borrowings	(9.1)	–	(9.1)
Deferred tax	0.3	–	0.3
Other liabilities	(23.1)	–	(23.1)
	41.0	14.7	55.7
Goodwill			9.0
Total consideration			64.7

Satisfied by	
Initial cash consideration	67.7
Amount receivable from Escrow	(3.0)
	64.7

2017 acquisitions

On 6 March 2017, the group acquired the assets and liabilities of Geo Instruments, an instrumentation and monitoring company based in North America, for cash consideration of £2.8m ($3.6m). The purchase price is a premium of £0.5m ($0.7m) to the fair value of the net assets acquired. This goodwill is attributable to the knowledge and expertise of the assembled workforce, the expectation of future contracts and customer relationships and the operating synergies that arise from the group's strengthened market position.

In the period to 31 December 2017, Geo Instruments contributed £3.4m to revenue and a profit for the period of £0.4m. Had the acquisition taken place on 1 January 2017, total group turnover would have been £2,071.3m and underlying profit for the period would have been £74.1m.

6 Operating costs

	Note	**2018 £m**	2017[1] £m
Raw materials and consumables		**665.3**	625.8
Staff costs	7	**570.8**	525.9
Other operating charges		**642.6**	572.1
Amortisation of intangible assets	14	**1.2**	1.2
Operating lease and short-term rental expense:			
Land and buildings		**14.1**	15.8
Plant, machinery and vehicles		**165.8**	153.8
Depreciation:			
Owned property, plant and equipment		**69.1**	66.4
Property, plant and equipment held under finance leases		**0.6**	0.9
Underlying operating costs		**2,129.5**	1,961.9
Non-underlying items	8	**64.2**	1.6
		2,193.7	1,963.5
Other operating charges include:			
Redundancy and other reorganisation costs		**1.8**	1.0
Fees payable to the Company's auditor for the audit of the Company's Annual Accounts		**0.3**	0.3
Fees payable to the Company's auditor for other services:			
The audit of the Company's subsidiaries, pursuant to legislation		**1.4**	1.2
Tax compliance services		–	–
Tax advisory services		–	–
Other assurance services		–	–

[1]2017 operating lease and short-term rental expense for plant, machinery and vehicles has been reclassified. There is no net impact on underlying operating costs.

7 Employees

The aggregate staff costs of the group were:

	2018 £m	2017 £m
Wages and salaries	**493.2**	453.8
Social security costs	**61.7**	57.4
Other pension costs	**14.5**	11.9
Share-based payments	**1.4**	2.8
	570.8	525.9

The average number of persons employed by the group during the year was:

	2018 Number	2017 Number
North America	**4,134**	3,813
EMEA	**4,451**	4,880
APAC	**1,969**	1,841
	10,554	10,534

8 Non-underlying items

Non-underlying items include items which are exceptional by their size or are non-trading in nature and comprise the following:

	2018 £m	2017 £m
Amortisation of acquired intangible assets	**(7.9)**	(9.0)
Goodwill impairment	**(30.1)**	–
Impairment of intangible assets	**(1.2)**	–
Exceptional restructuring costs	**(30.1)**	–
Total restructuring costs	**(61.4)**	–
Contingent consideration: additional amounts provided	**(0.4)**	(1.6)
Acquisition costs	**(1.1)**	–
Guaranteed Minimum Pension equalisation	**(1.3)**	–
Non-underlying items in operating costs	**(64.2)**	(1.6)
Exceptional contract dispute	**–**	21.0
Contingent consideration: provision released	**0.5**	2.2
Non-underlying items in other operating income	**0.5**	23.2
Total non-underlying items in operating profit	**(71.6)**	12.6
Non-underlying finance costs	**(0.5)**	(0.7)
Total non-underlying items before taxation	**(72.1)**	11.9

Amortisation of acquired intangibles relates mainly to the Keller Canada, Austral, Bencor and Moretrench acquisitions.

The goodwill impairment relates to the ASEAN Heavy Foundations, Waterway, Franki Africa, Brazil and Wannenwetsch cash-generating units, all of which are experiencing significantly depressed trading conditions.

The impairment of intangible assets relate to the impairment of the Tecnogeo and Franki Africa trade names capitalised on acquisition.

On 22 November 2018, the group announced a group-wide restructuring programme of portfolio and capacity actions. The group has taken a £30.1m restructuring charge, of which £21.6m was non-cash, relating to asset write-downs, redundancy costs and other reorganisation charges. Affected business units are ASEAN, Waterway, Brazil and Franki Africa. This includes the write-down of surplus equipment to current market values.

Additional contingent consideration provided relates to the Geo Instruments acquisition. In 2017, the additional amounts provided were in respect of the Geo-Foundations and Ellington Cross acquisitions.

A cost has been recognised in relation to the Guaranteed Minimum Pension equalisation requirement, in respect of the UK defined benefit pension scheme. Further details are set out in note 30.

The £21.0m exceptional profit in 2017 relating to the contract dispute represents the gain on disposal of a freehold property acquired in 2016, rental income less operating costs to the date of disposal and insurance recoveries in the period.

Contingent consideration released relates to adjustments to estimated amounts payable for the Austral and Bencor acquisitions. The 2017 release related to the Austral and Ansah acquisitions.

9 Finance income

	2018 £m	2017 £m
Bank and other interest receivable	**0.6**	0.7
Other finance income	**–**	3.1
	0.6	3.8

10 Finance costs

	2018 £m	2017 £m
Interest payable on bank loans and overdrafts	**8.9**	5.3
Interest payable on other loans	**4.2**	4.0
Interest payable on finance leases	**0.1**	0.4
Net pension interest cost	**0.5**	0.7
Other finance costs	**3.0**	3.4
Underlying finance costs	**16.7**	13.8
Non-underlying finance costs (note 8)	**0.5**	0.7
	17.2	14.5

11 Taxation

	2018 £m	2017 £m
Current tax expense		
Current year	**24.1**	30.6
Prior years	**(4.5)**	(3.0)
Total current tax	**19.6**	27.6
Deferred tax expense		
Current year	**3.5**	5.6
US tax rate adjustment relating to current year	**–**	(1.8)
Prior years	**(0.9)**	(0.4)
US tax rate adjustment relating to prior years	**–**	(7.9)
Total deferred tax	**2.6**	(4.5)
	22.2	23.1

UK corporation tax is calculated at 19% (2017: 19.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The effective tax rate can be reconciled to the UK corporation tax rate of 19% (2017: 19.25%) as follows:

	2018			2017		
	Underlying £m	**Non-underlying items (note 8) £m**	**Statutory £m**	Underlying £m	Non-underlying items (note 8) £m	Statutory £m
Profit before tax	**80.5**	**(72.1)**	**8.4**	98.7	11.9	110.6
UK corporation tax charge/(credit) at 19% (2017: 19.25%)	**15.3**	**(13.7)**	**1.6**	19.0	2.3	21.3
Tax charged at rates other than 19% (2017: 19.25%)	**4.2**	**(0.6)**	**3.6**	12.1	(0.6)	11.5
Adjustments to deferred tax arising from US tax rate changes	–	–	–	(9.7)	–	(9.7)
Tax losses and other deductible temporary differences not recognised	**5.0**	**12.4**	**17.4**	6.0	–	6.0
Utilisation of tax losses and other deductible temporary differences previously unrecognised	**(1.2)**	–	**(1.2)**	(1.3)	(2.1)	(3.4)
Non-deductible expenses and non-taxable income	**4.6**	**1.6**	**6.2**	2.0	(1.2)	0.8
Adjustments to tax charge in respect of previous periods	**(5.4)**	–	**(5.4)**	(3.4)	–	(3.4)
Tax charge/(credit)	**22.5**	**(0.3)**	**22.2**	24.7	(1.6)	23.1
Effective tax rate	**28.0%**	**0.4%**	**264.3%**	25.0%	(13.4)%	20.9%

The tax credit on non-underlying items is net of a tax charge of £2.8m arising from a write-off of deferred tax assets as a consequence of the decision to restructure the related businesses.

The tax charge for 2017 includes a credit of £9.7m from the re-measurement of deferred tax liabilities following the approval of the US tax reform package in December 2017 which included a reduction in the federal rate of corporation tax from 35% to 21%, effective from 1 January 2018. The benefit of the tax rate reduction on 2018 profits is reflected in the tax charge for the year.

The group is subject to taxation in over 40 countries worldwide and the risk of changes in tax legislation and interpretation from tax authorities in the jurisdictions in which it operates. The assessment of uncertain positions is subjective and subject to management's best judgement. Where tax positions are uncertain, provision is made where necessary based on interpretation of legislation, management experience and appropriate professional advice. We do not expect the outcome of these estimates to be materially different from the position taken.

The financing of group companies includes some activities which are subject to exemptions under the UK's Controlled Foreign Company Regime. The group is monitoring the EU Commission's investigation of whether such exemptions are in breach of EU State Aid rules. There have been no significant developments in the progress of the investigation over the last year and the investigation is not expected to be concluded within the next 12 months. No provision has been made for any additional tax that might become payable at this time due to the uncertain nature of the outcome of these investigations.

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting periods:

	Unused tax losses £m	Accelerated capital allowances £m	Retirement benefit obligations £m	Other employee related liabilities £m	Bad debts £m	Other temporary differences £m	**Total £m**
At 1 January 2017	(22.2)	45.2	(4.4)	(12.6)	(5.0)	10.9	**11.9**
(Credit)/charge to the income statement	(5.8)	(5.3)	1.1	1.3	2.1	2.1	**(4.5)**
Charge to other comprehensive income	–	–	0.3	–	–	–	**0.3**
Exchange differences	0.2	(2.7)	(0.1)	0.9	0.3	(0.1)	**(1.5)**
At 31 December 2017 and 1 January 2018	(27.8)	37.2	(3.1)	(10.4)	(2.6)	12.9	**6.2**
Charge/(credit) to the income statement	2.0	1.4	(0.2)	2.6	(1.3)	(1.9)	**2.6**
Charge to other comprehensive income	–	–	0.1	–	–	–	**0.1**
Acquired with subsidiary	–	–	–	(0.1)	(0.2)	–	**(0.3)**
Exchange differences	0.5	1.8	–	(0.3)	(0.2)	0.6	**2.4**
Other reallocations/transfers	6.8	–	–	–	–	(6.8)	**–**
At 31 December 2018	**(18.5)**	**40.4**	**(3.2)**	**(8.2)**	**(4.3)**	**4.8**	**11.0**

Deferred tax assets include amounts of £24.3m (2017: £23.0m) where recovery is based on forecasts of future taxable profits that are expected to be available to offset the reversal of the associated temporary differences. The deferred tax assets predominantly arise in Canada (£7.0m) and Australia (£10.6m). Canadian tax rules currently allow tax losses to be carried forward up to 20 years and Australian tax rules currently allow tax losses to be carried forward indefinitely. We have assessed the recovery of deferred tax assets by reviewing the likely timing and level of future taxable profits.

The following is the analysis of the deferred tax balances:

	2018 £m	2017 £m
Deferred tax liabilities	**37.9**	45.5
Deferred tax assets	**(26.9)**	(39.3)
	11.0	6.2

At the balance sheet date, the group had unused tax losses of £115.2m (2017: £72.9m), mainly arising in the UK, Canada and Malaysia, available for offset against future profits, on which no deferred tax asset has been recognised. Of these losses, £53.5m (2017: £50.4m) may be carried forward indefinitely.

At the balance sheet date the aggregate of other deductible temporary differences for which no deferred tax asset has been recognised was £2.3m (2017: £3.3m).

At the balance sheet date the aggregate of temporary differences associated with investments in subsidiaries, branches and joint ventures for which no deferred tax liability has been recognised is £54.5m (2017: £59.2m). The unprovided deferred tax liability in respect of these timing differences is £2.0m (2017: £3.1m).

12 Dividends payable to equity holders of the parent

Ordinary dividends on equity shares:

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2017 of 24.5p (2016: 19.25p) per share	**17.6**	13.8
Interim dividend for the year ended 31 December 2018 of 12.0p (2017: 9.7p) per share	**8.7**	7.0
	26.3	20.8

The Board has recommended a final dividend for the year ended 31 December 2018 of £17.2m, representing 23.9p (2017: 24.5p) per share. The proposed dividend is subject to approval by shareholders at the AGM on 16 May 2019 and has not been included as a liability in these financial statements.

13 Earnings per share

Basic and diluted earnings per share are calculated as follows:

	Underlying earnings attributable to equity holders of the parent		Earnings attributable to equity holders of the parent	
	2018	2017	**2018**	2017
Basic and diluted earnings (£m)	**57.0**	73.6	**(14.8)**	87.1
Weighted average number of shares (million)				
Basic number of ordinary shares outstanding	**72.0**	72.0	**72.0**	72.0
Effect of dilutive potential ordinary shares:				
Share options and awards	**0.1**	0.3	**0.1**	0.3
Diluted number of ordinary shares outstanding	**72.1**	72.3	**72.1**	72.3
Earnings per share				
Basic earnings/(loss) per share (pence)	**79.2**	102.2	**(20.6)**	121.0
Diluted earnings/(loss) per share (pence)	**79.1**	101.8	**(20.6)**	120.5

When the group makes a profit, diluted earnings per share equals the profit attributable to equity holders of the parent divided by the weighted average diluted number of shares. When the group makes a loss, diluted earnings per share equals the loss attributable to the equity holders of the parent divided by the basic average number of shares. This ensures that earnings per share on losses is shown in full and not diluted by unexercised share awards.

14 Intangible assets

	Goodwill £m	Arising on acquisition £m	Other £m	**Total £m**
Cost				
At 1 January 2017	231.8	52.0	22.3	**306.1**
Additions	–	–	0.8	**0.8**
Acquired with subsidiaries	0.5	–	–	**0.5**
Exchange differences	(9.8)	(1.1)	(0.7)	**(11.6)**
At 31 December 2017 and 1 January 2018	222.5	50.9	22.4	**295.8**
Additions	–	–	0.5	**0.5**
Acquired with subsidiaries	9.8	10.4	–	**20.2**
Exchange differences	2.7	(1.2)	0.9	**2.4**
At 31 December 2018	235.0	60.1	23.8	**318.9**
Accumulated amortisation and impairment				
At 1 January 2017	65.3	32.6	20.2	**118.1**
Amortisation charge for the year	–	9.0	1.2	**10.2**
Exchange differences	(1.8)	(0.8)	(0.8)	**(3.4)**
At 31 December 2017 and 1 January 2018	63.5	40.8	20.6	**124.9**
Impairment charge for the year	30.1	1.2	–	**31.3**
Amortisation charge for the year	–	7.9	1.2	**9.1**
Exchange differences	0.5	(1.1)	0.8	**0.2**
At 31 December 2018	94.1	48.8	22.6	**165.5**
Carrying amount				
At 31 December 2018	140.9	11.3	1.2	**153.4**
At 31 December 2017 and 1 January 2018	159.0	10.1	1.8	**170.9**
At 1 January 2017	166.5	19.4	2.1	**188.0**

Intangible assets arising on acquisition represent customer relationships, customer contracts at the date of acquisition, patents and trade names. The amounts acquired with subsidiaries in the year relate to the Moretrench (£9.7m) and Sivenmark (£0.7m) acquisitions (note 5).

During the year, additional goodwill of £9.8m has been recognised on the acquisition of Moretrench (£9.0m, included in the Hayward Baker cash-generating unit ('CGU')) and Sivenmark (£0.8m, included in the Keller Grundlaggning CGU).

In 2018, for impairment testing purposes goodwill has been allocated to 17 separate CGUs. The carrying amount of goodwill allocated to the six CGUs with the largest goodwill balances is significant in comparison to the total carrying amount of goodwill and comprises 92% of the total. The relevant CGUs and the carrying amount of the goodwill allocated to each are as set out below, together with the pre-tax discount rate and medium-term growth rate used in their value-in-use calculations:

Cash-generating unit	Geographical segment	**2018**			2017		
		Carrying value £m	**Pre-tax discount rate %**	**Forecast growth rate %**	Carrying value £m	Pre-tax discount rate %	Forecast growth rate %
Suncoast	North America	**33.9**	**10.8**	**2.0**	31.9	12.4	2.0
Keller Canada	North America	**32.6**	**11.4**	**2.0**	33.5	11.0	2.0
HJ Foundation	North America	**21.8**	**12.9**	**2.0**	20.5	14.4	2.0
Hayward Baker	North America	**21.2**	**11.0**	**2.0**	11.1	12.1	2.0
Keller Limited	EMEA	**12.1**	**9.9**	**2.0**	12.1	9.8	2.0
Austral	APAC	**7.5**	**12.8**	**2.0**	7.8	13.0	2.0
Other	Various	**11.8**	**various**	**various**	42.1	various	various
		140.9			159.0		

The recoverable amount of the goodwill allocated to each CGU has been determined based on a value-in-use calculation. The calculations all use cash flow projections based on financial budgets and forecasts approved by management covering a three-year period.

The group's businesses operate in cyclical markets, some of which are expected to continue to face uncertain conditions over the next couple of years. The most important factors in the value-in-use calculations, however, are the forecast revenues and operating margins during the forecast period and the discount rates applied to future cash flows. The key assumptions underlying the cash flow forecasts are therefore the revenue and operating margins assumed throughout the forecast period. The discount rates used in the value-in-use calculations are based on the weighted average cost of capital of companies comparable to the relevant CGUs, adjusted as necessary to reflect the risk associated with the asset being tested.

Management considers all the forecast revenues, margins and profits to be reasonably achievable given recent performance and the historic trading results of the relevant CGUs. Cash flows beyond 2021 have been extrapolated using a steady revenue growth rate, usually 2%, which does not exceed the long-term average growth rates for the markets in which the relevant CGUs operate.

In 2018, the goodwill in five CGUs, included within the 'other' category above, was fully impaired as the recoverable amount based on the value-in-use calculations does not support the carrying value of goodwill.

Cash-generating unit	Geographical segment	**Impairment £m**
ASEAN Heavy Foundations	APAC	12.0
Waterway	APAC	7.7
Brazil	EMEA	6.5
Franki Africa	EMEA	2.7
Wannenwetsch	EMEA	1.2
		30.1

All of the impairments relate to CGUs that are experiencing significantly depressed trading conditions.

For the remaining CGUs management believes that, with the exception of Keller Canada, any reasonably possible change in the key assumptions on which the recoverable amounts of the CGUs are based would not cause any of their carrying amounts to exceed their recoverable amounts.

In 2015, the carrying value of the Keller Canada goodwill was impaired by £31.2m (C$60.9m) due to the results of Keller Canada being below those expected at the time of the acquisition, primarily due to a severe slowdown in investment in the Canadian oil sands following the very significant reduction in the oil price since the time of acquisition. Keller Canada continues to operate in a challenging market but is expecting to see some improvement in margins. The assumptions underlying the forecasts used in the value-in-use calculation at 31 December 2018 are for a gradual recovery in the Canadian market in the medium term such that the operating margins gradually recover to 9%. In order for the recoverable amount to equal the carrying amount, assumed operating margins in each year would have to decrease by 3.2%. Alternatively, a 4.4% increase in the discount rate or a 13% reduction in forecast revenue growth, at the assumed operating margins, in each year would lead to the recoverable amount being equal to the carrying value.

15 Property, plant and equipment

	Land and buildings £m	Plant, machinery and vehicles £m	Capital work in progress £m	**Total £m**
Cost				
At 1 January 2017	59.7	834.1	7.0	**900.8**
Additions	0.9	75.2	8.1	**84.2**
Disposals	(1.2)	(26.2)	–	**(27.4)**
Acquired with subsidiaries	–	0.9	–	**0.9**
Reclassification	–	5.4	(5.4)	**–**
Exchange differences	(1.2)	(31.5)	(0.2)	**(32.9)**
At 31 December 2017 and 1 January 2018	58.2	857.9	9.5	**925.6**
Additions	3.5	78.0	3.6	**85.1**
Disposals	(2.6)	(24.3)	(0.1)	**(27.0)**
Transfers to held for sale	–	(30.7)	–	**(30.7)**
Acquired with subsidiaries	10.6	17.6	–	**28.2**
Reclassification	–	3.2	(3.2)	–
Exchange differences	2.0	18.0	–	**20.0**
At 31 December 2018	71.7	919.7	9.8	**1,001.2**
Accumulated depreciation				
At 1 January 2017	15.0	480.2	–	**495.2**
Charge for the year	2.7	64.6	–	**67.3**
Disposals	–	(20.9)	–	**(20.9)**
Exchange differences	(0.2)	(15.0)	–	**(15.2)**
At 31 December 2017 and 1 January 2018	17.5	508.9	–	**526.4**
Charge for the year	2.7	67.0	–	**69.7**
Disposals	(0.4)	(19.8)	–	**(20.2)**
Transfers to held for sale	–	(25.5)	–	**(25.5)**
Impairments	–	16.2	–	**16.2**
Exchange differences	0.6	12.0	–	**12.6**
At 31 December 2018	20.4	558.8	–	**579.2**
Carrying amount				
At 31 December 2018	51.3	360.9	9.8	**422.0**
At 31 December 2017 and 1 January 2018	40.7	349.0	9.5	**399.2**
At 1 January 2017	44.7	353.9	7.0	**405.6**

The net book value of plant, machinery and vehicles includes £1.7m (2017: £1.0m) in respect of assets held under finance leases.

The group had contractual commitments for the acquisition of property, plant and equipment of £1.9m (2017: £7.0m) at the balance sheet date. These amounts were not included in the balance sheet at the year end.

Impairments in the year include the write-down of surplus equipment to current market values where it is not being relocated to other more active parts of the group. Further details of the restructuring programme are detailed in note 8.

16 Investments in joint ventures

	£m
At 31 December 2017 and 1 January 2018	3.7
Share of post-tax results	1.6
Dividends received	(0.9)
Exchange differences	0.2
At 31 December 2018	**4.6**

The group's investment in joint ventures relates to a 50% interest in KFS Finland Oy, an entity incorporated in Finland.

Aggregate amounts relating to joint ventures:

	2018 £m
Revenue	**18.1**
Operating costs	**(15.9)**
Operating profit	**2.2**
Finance costs	**(0.1)**
Profit before taxation	**2.1**
Taxation	**(0.5)**
Share of post-tax results	**1.6**

	2018 £m
Non-current assets	**4.3**
Current assets	**2.6**
Current liabilities	**(2.0)**
Non-current liabilities	**(0.3)**
Share of net assets	**4.6**

17 Other non-current assets

	2018 £m	2017[1] £m
Fair value of derivative financial instruments	**0.4**	1.8
Other assets	**21.1**	21.9
	21.5	23.7

[1] Non-current assets shown here does not correspond to the published 2017 consolidated financial statements as a result of re-presenting the comparative balance to show investments in joint ventures separate from other non-current assets. Refer to note 16.

Other assets includes £17.6m (2017: £21.2m) of assets held at fair value in connection with an ongoing non-qualifying deferred compensation plan available to certain US employees.

18 Inventories

	2018 £m	2017 £m
Raw materials and consumables	**57.3**	52.3
Work in progress	**0.8**	1.2
Finished goods	**22.2**	19.1
	80.3	72.6

19 Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**451.7**	439.8
Contract assets	**106.3**	101.2
Other receivables	**29.3**	24.3
Prepayments	**18.4**	19.9
Assets held for sale	**5.2**	–
Fair value of derivative financial instruments	–	4.0
	610.9	589.2

Trade receivables are shown net of an allowance for doubtful debts. Assets held for sale relates to the net book value of equipment to be sold as part of the group-wide restructuring programme (note 8).

The movement in the provision for bad and doubtful debt is as follows:

	2018 £m	2017 £m
At 1 January	**35.6**	34.7
Used during the period	**(8.2)**	(3.7)
Additional provisions	**23.2**	12.2
Unused amounts reversed	**(7.8)**	(6.6)
Acquired with subsidiary	**0.6**	–
Exchange differences	**1.1**	(1.0)
At 31 December	**44.5**	35.6

The ageing of trade receivables that were past due but not impaired was as follows:

	2018 £m	2017 £m
Overdue by less than 30 days	**84.5**	83.1
Overdue by between 31 and 90 days	**39.9**	42.7
Overdue by more than 90 days	**46.1**	34.4
	170.5	160.2

20 Cash and cash equivalents

	2018 £m	2017 £m
Bank balances	**106.4**	66.5
Short-term deposits	**4.1**	1.2
Cash and cash equivalents in the balance sheet	**110.5**	67.7
Bank overdrafts	**(6.8)**	(16.4)
Cash and cash equivalents in the cash flow statement	**103.7**	51.3

21 Trade and other payables

	2018 £m	2017[1] £m
Trade payables	**262.8**	256.8
Other taxes and social security payable	**12.6**	16.4
Other payables	**115.0**	102.9
Contract liabilities	**41.4**	42.9
Accruals	**42.5**	57.8
Fair value of derivative financial instruments	**0.1**	3.7
	474.4	480.5

[1] Other payables shown here does not correspond to the published 2017 consolidated financial statements as a result of re-presenting the comparative to show contract liabilities separate from other payables.

Other payables include contingent consideration of £0.4m (2017: £8.0m).

22 Provisions

	Employee provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 1 January 2018	11.4	0.5	11.4	**23.3**
Charge for the year	4.9	4.1	0.8	**9.8**
Used during the period	(4.4)	(0.5)	(3.0)	**(7.9)**
Unused amounts reversed	–	–	(0.6)	**(0.6)**
Exchange differences	0.5	0.1	0.2	**0.8**
At 31 December 2018	12.4	4.2	8.8	**25.4**
To be settled within one year	2.4	4.2	4.2	**10.8**
To be settled after one year	10.0	–	4.6	**14.6**
At 31 December 2018	12.4	4.2	8.8	**25.4**

Employee provisions comprise obligations to employees other than retirement benefit obligations. Other provisions are in respect of legal and other disputes in various group companies.

Restructuring provisions include redundancy costs and other reorganisation charges in markets experiencing significantly depressed trading conditions as detailed further in note 8.

23 Other non-current liabilities

	2018 £m	2017 £m
Fair value of derivative financial instruments	**0.3**	–
Other liabilities	**18.3**	18.0
	18.6	18.0

Other liabilities include contingent consideration of £2.4m (2017: £1.3m) and £15.9m (2017: £16.7m) payable to US employees under a non-qualifying deferred compensation plan.

24 Financial instruments

The group's board of directors has overall responsibility for the establishment and oversight of the group's risk management framework, the setting of risk appetite and the implementation of the risk management policy. The Audit Committee ensures adequate assurance is obtained over the risks that are identified as the group's principal risks.

Exposure to credit, interest rate and currency risks arise in the normal course of the group’s business and have been identified as key risks for the group. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange and interest rates.

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

Currency risk
The group faces currency risk principally on its net assets, most of which are in currencies other than sterling. The group aims to reduce the impact that retranslation of these net assets might have on the consolidated balance sheet, by matching the currency of its borrowings, where possible, with the currency of its assets. The majority of the group's borrowings are held in sterling, US dollars, Canadian dollars, euros, Australian dollars, Singapore dollars, Emirati dirham and South African rand, in order to provide a hedge against these currency net assets.

The group manages its currency flows to minimise currency transaction exchange risk. Forward contracts and other derivative financial instruments are used to hedge significant individual transactions. The majority of such currency flows within the group relate to repatriation of profits, intra-group loan repayments and any foreign currency cash flows associated with acquisitions. The group's foreign exchange cover is executed primarily in the UK.

At 31 December 2018, the fair value of foreign exchange forward contracts outstanding was £0.1m (2017: £0.5m) included in current liabilities.

Interest rate risk
Interest rate risk is managed by mixing fixed and floating rate borrowings depending upon the purpose and term of the financing. As at 31 December 2018, approximately 90% of the group's third party borrowings bore interest at floating rates.

Hedging currency risk and interest rate risk
The group hedges currency risk and interest rate risk together. Where hedging instruments are used to hedge these significant individual transactions, it is ensured that the critical terms, such as dates, currencies, nominal amounts, interest rates and lengths of interest periods are matched exactly between the hedged item and the hedging instrument and therefore an economic relationship exists between the two. The group uses both qualitative and quantitative methods to confirm this and to assess the effectiveness of the hedge.

The hedge ratio for such items is the cumulative changes in fair value of the hedging instrument since designation date divided by the change in fair value of the hedged item due to movements in the hedged risk.

The main source of hedge ineffectiveness for hedging currency risk is the relative movement of the forward points of the different currencies.

The main sources of hedge ineffectiveness for hedging interest rate risk include the libor rate resetting at the start of each coupon period compared to the market rate at the next reporting period, discounting of the libor rate and the movement in discount factors.

Credit risk
The group's principal financial assets are trade and other receivables, bank and cash balances and a limited number of investments and derivatives held to hedge certain of the group's liabilities. These represent the group's maximum exposure to credit risk in relation to financial assets.

The group has stringent procedures to manage counterparty risk and the assessment of customer credit risk is embedded in the contract tendering processes. Customer credit risk is mitigated by the group's relatively small average contract size, its diversity, both geographically and in terms of end markets, and by taking out credit insurance in many of the countries in which the group operates. No individual customer represented more than 2% of revenue in 2018. The counterparty risk on bank and cash balances is managed by limiting the aggregate amount of exposure to any one institution by reference to their credit rating and by regular review of these ratings. The ageing of trade receivables that were past due but not impaired is shown in note 19.

The group analyses each new customer and assesses their creditworthiness before any contract is undertaken. The group reviews contracts at each reporting period and determines whether the credit risk has increased significantly since initial recognition. Due to the nature of our contracts, where we are often on site at the initial stages and are often paid in the earlier stages of the construction project, the credit risk is generally lower. Amounts actually written off due to credit risk have historically been low.

When taking into account whether to provide against a contract and if necessary, how much the lifetime expected credit losses should equate to, the group looks at several factors, both historical and forward looking such as the financial situation of the customer, past experiences with the customer, the economic and political environment in the region and the relationship with the customer.

The group tends to be conservative in its estimation of such provisions and the group's bad and doubtful debt provision balance is significantly larger than the amount of provision actually used during the period.

The group's estimated exposure to credit risk for trade receivables and contract assets is cumulative lifetime expected credit losses of £19.9m and this is included in the bad debt provision in note 19. This amount is the accumulation of several years of provisions for known or expected credit losses.

The loss allowance is usually equal to the lifetime expected credit loss.

Expected credit loss assessment as at 31 December 2018
Consideration of future events is generally taken into account when deciding on when and how much to provide for of the group's trade receivables and contract assets. The group's bad debts typically arise due to invoices being unpaid for commercial reasons rather than credit default. The percentage of receivables on which credit losses are incurred, or expected to be incurred, is very small and therefore the initial expected credit loss is immaterial.

Liquidity risk and capital management
The group's capital structure is kept under constant review, taking account of the need for, availability and cost of various sources of finance. The capital structure of the group consists of net debt and equity attributable to equity holders of the parent as shown in the consolidated balance sheet. The group maintains a balance between certainty of funding and a flexible, cost-effective financing structure with all main borrowings being from committed facilities. The group's policy continues to be to ensure that its capital structure is appropriate to support this balance and the group's operations.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group's debt and committed facilities mainly comprise a \$50m private placement repayable in 2021, a \$75m private placement repayable in 2024, a €35m term facility repaid in 2019 and a £375m syndicated revolving credit facility expiring in 2023, with an option to extend the facility by two further one year extensions by mutual consent. These facilities are subject to certain covenants linked to the group's financing structure, specifically regarding the ratios of debt and interest to profit. The group has complied with these covenants throughout the period.

At the year end, the group also had other committed and uncommitted borrowing facilities totalling £105.3m (2017: £73.0m) to support local requirements.

Private placements
In October and December 2014, \$50m and \$75m respectively were raised through a private placement with US institutions. The proceeds of the issue of \$50m 3.81% Series A notes due 2021 and \$75m 4.17% Series B notes due 2024 were used to refinance maturing private placements.

The US private placement loans are accounted for on an amortised cost basis, adjusted for the impact of hedge accounting (as described below), and retranslated at the spot exchange rate at each period end. The carrying value of the private placement liabilities at 31 December 2018 was £98.2m (2017: £123.7m), the decrease from 2017 due to the repayment of a \$40m private placement during the year.

Hedging
The 2014 \$50m and \$75m fixed rate private placement liabilities were swapped into floating rate by means of US dollar interest rate swaps ('the 2014 swaps'). The 2014 swaps have the same maturity as the private placement liabilities and have been designated as fair value hedges of the group's exposure to changes in the fair value of the US private placement loans and related interest cash flows due to changes in US dollar interest rates.

The fair value of the 2014 swaps at 31 December 2018 represented an asset of £0.4m (2017: £1.8m) which is included in other non-current assets and a liability of £0.3m (2017: £nil) which is included in other non-current liabilities. The effective portion of the changes in the fair value of the 2014 swaps, a loss of £1.7m (2017: loss of £0.7m), has been taken to the income statement along with the equal and opposite movement in fair value of the corresponding hedged items.

All hedges are tested for effectiveness every six months using the cumulative dollar offset method. All hedging relationships remained effective during the year. The ineffective portion of the movement in the fair value of the hedging instruments was nil (2017: £nil).

Accounting classifications

	2018 £m	2017 £m
Financial assets measured at fair value through profit or loss		
- Non-qualifying deferred compensation plan	**17.6**	21.2
- Interest rate swaps	**0.4**	1.8
- Cross currency swaps	**-**	4.0
Financial assets measured at amortised cost		
- Trade receivables	**451.7**	439.8
- Contract assets	**106.3**	101.2
- Cash and cash equivalents	**110.5**	67.7
Financial liabilities at fair value through profit or loss		
- Interest rate swaps	**(0.3)**	-
- Forward exchange contracts	**(0.1)**	(0.5)
- Cross currency swaps	**-**	(3.2)
- Loans and borrowings	**(100.3)**	(95.3)
Financial liabilities measured at amortised cost		
- Trade payables	**(262.8)**	(256.8)
- Contract liabilities	**(41.4)**	(42.9)
- Loans and borrowings	**(296.4)**	(201.9)

Effective interest rates and maturity analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature.

	2018						
	Effective interest rate %	**Due within 1-2 years £m**	**Due within 2-5 years £m**	**Due after more than 5 years £m**	**Total non-current £m**	**Due within 1 year £m**	**Total £m**
Bank overdrafts	**5.2**	**-**	**-**	**-**	**-**	**(6.8)**	**(6.8)**
Bank loans*	**3.0**	**-**	**(248.4)**	**(3.1)**	**(251.5)**	**(34.3)**	**(285.8)**
Other loans*	**3.4**	**(0.8)**	**(41.3)**	**(59.4)**	**(101.5)**	**(0.5)**	**(102.0)**
Obligations under finance leases*	**7.4**	**(0.7)**	**(0.2)**	**-**	**(0.9)**	**(1.2)**	**(2.1)**
Total loans and borrowings		**(1.5)**	**(289.9)**	**(62.5)**	**(353.9)**	**(42.8)**	**(396.7)**
Bank balances*	**0.9**	**-**	**-**	**-**	**-**	**106.4**	**106.4**
Short-term deposits*	**6.0**	**-**	**-**	**-**	**-**	**4.1**	**4.1**
Net debt		**(1.5)**	**(289.9)**	**(62.5)**	**(353.9)**	**67.7**	**(286.2)**
Derivative financial instruments		**-**	**(0.3)**	**0.4**	**0.1**	**(0.1)**	**-**

	2017						
	Effective interest rate %	Due within 1-2 years £m	Due within 2-5 years £m	Due after more than 5 years £m	Total non-current £m	Due within 1 year £m	Total £m
Bank overdrafts	2.4	–	–	–	–	(16.4)	(16.4)
Bank loans*	2.4	(150.8)	(0.4)	(3.2)	(154.4)	(1.4)	(155.8)
Other loans*	2.7	–	(37.0)	(57.0)	(94.0)	(29.7)	(123.7)
Obligations under finance leases*	9.5	(0.3)	(0.2)	–	(0.5)	(0.8)	(1.3)
Total loans and borrowings		(151.1)	(37.6)	(60.2)	(248.9)	(48.3)	(297.2)
Bank balances*	0.4	–	–	–	–	66.5	66.5
Short-term deposits*	3.8	–	–	–	–	1.2	1.2
Net debt		(151.1)	(37.6)	(60.2)	(248.9)	19.4	(229.5)
Derivative financial instruments		–	0.3	1.5	1.8	0.3	2.1

* These include assets/liabilities bearing interest at a fixed rate.

Loans and borrowings consist of the following:

	2018 £m	2017 £m
$75m private placement (due December 2024)	**59.4**	57.0
$50m private placement (due October 2021)	**38.8**	37.0
£375m syndicated revolving credit facility (expiring November 2023*)	**248.0**	-
£250m syndicated revolving credit facility (repaid November 2018)	**-**	107.8
$62.5m revolving credit facility (repaid November 2018)	**-**	43.0
$40m private placement (repaid August 2018)	**-**	29.7
€35m term facility (repaid February 2019)	**31.5**	-
Bank overdrafts	**6.8**	16.4
Obligations under finance leases	**2.1**	1.3
Other loans and borrowings	**10.1**	5.0
Total loans and borrowings	**396.7**	297.2

*with an option to extend the facility by two further one year extensions by mutual consent

Changes in loans and borrowings were as follows:

	2017 £m	**Acquired with subsidiaries £m**	**Cash flows £m**	**Foreign exchange movements £m**	**Fair value changes £m**	**2018 £m**
Bank overdrafts	(16.4)	**-**	**9.7**	**(0.1)**	**-**	**(6.8)**
Bank loans	(155.8)	**(6.7)**	**(120.5)**	**(2.8)**	**-**	**(285.8)**
Other loans	(123.7)	**-**	**24.9**	**(1.7)**	**(1.5)**	**(102.0)**
Obligations under finance leases	(1.3)	**(2.4)**	**1.6**	**-**	**-**	**(2.1)**
Total loans and borrowings	(297.2)	**(9.1)**	**(84.3)**	**(4.6)**	**(1.5)**	**(396.7)**
Derivative financial instruments	2.1	**-**	**(1.5)**	**-**	**(0.6)**	**-**

Cash flow hedges

At 31 December 2018, the group held the following instruments to hedge exposures to changes in foreign currency rates:

	< 1 year £m	Maturity 1-2 years £m	2-5 years £m	Carrying amount asset £m	Carrying amount liability[1] £m	Change in fair value used for for calculating hedge ineffectiveness £m	Nominal amount $m
Forward exchange contracts	(0.1)*	-	-	-	(0.1)	-	15.0

*The average USD:GBP forward contract rate is 1.28

The group had the following hedged items and hedge ineffectiveness relating to cash flow hedges:

	Cash flow hedge transfers to income statement[5] £m	(Gains)/losses in other comprehensive income £m	Cash flow hedge reserve balance £m	Foreign currency translation reserve £m	Change in value used for calculating hedge ineffective-ness £m	Hedge ineffective-ness in profit or loss[5] £m
Foreign currency loans	0.6	(0.6)	-	-	-	-
$40m private placement	0.4	(0.4)	-	-	-	-

Fair value hedges

At 31 December 2018, the group held the following instruments to hedge exposures to changes in interest rates:

	< 1 year £m	Maturity 1-2 years £m	2-5 years £m	>5 years £m	Carrying amount Asset[2] £m	Carrying amount Liability[3] £m	Change in fair value used for calculating hedge ineffective-ness £m	Nominal amount $m
Interest rate swaps	-	-	(0.3)	0.4	0.4	(0.3)	0.1	24.5

*The average fixed interest rate is 4.0%

The group had the following hedged items and hedge ineffectiveness relating to the above instruments:

	Carrying amount Liability[4] £m	Change in fair value used for calculating hedge ineffective-ness £m	Hedge ineffective-ness in profit or loss[5] £m
$125m private placements	(98.5)	(0.1)	-
Fair value hedge adjustments	1.7	n/a	n/a

1 Included in trade and other payables 2 Included in other non-current assets 3 Included in other non-current liabilities 4 Included in loans and borrowings
5 Included in profit for the period

Non-interest-bearing financial liabilities comprise trade payables and contract liabilities of £304.2m (2017: £299.7m) which were payable within one year.

The group had unutilised committed banking facilities of £148.8m at 31 December 2018 (2017: £161.3m). This mainly comprised the unutilised portion of the group's £375m facility which expires on 13 November 2023, with an option to extend the facility by two further one year extensions by mutual consent. In addition, the group had unutilised uncommitted borrowing facilities totalling £64.8m at 31 December 2018 (2017: £33.6m). £5.6m (2017: £4.6m) of drawn facilities, including finance leases, are secured against certain assets. Future obligations under finance leases totalled £2.3m (2017: £1.5m), including interest of £0.2m (2017: £0.2m).

Fair values

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

The fair value of interest rate and cross-currency swaps is calculated based on expected future principal and interest cash flows discounted using market rates prevailing at the balance sheet date. In 2018 and in 2017, the valuation methods of all of the group's derivative financial instruments carried at fair value are categorised as Level 2. Level 2 is defined as inputs, other than quoted prices (unadjusted) in active markets for identical assets or liabilities, that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

Interest-bearing loans and borrowings
Fair value is calculated based on expected future principal and interest cash flows discounted using market rates prevailing at the balance sheet date.

Contingent consideration
Fair value is calculated based on the amounts expected to be paid, determined by reference to forecasts of future performance of the acquired businesses discounted using market rates prevailing at the balance sheet date and the probability of contingent events and targets being achieved.

In 2018 and in 2017, the valuation methods of all of the group's contingent consideration carried at fair value are categorised as Level 3. Level 3 inputs are unobservable inputs for the asset or liability.

There are no individually significant unobservable inputs used in the fair value measurement of the group's contingent consideration as at 31 December 2018. Of the total payable as at 31 December 2018, £0.4m was based on performance up to that date and will be settled during 2019. The remaining balance depends on the forecast outcome of one project.

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

	2018 £m	2017 £m
At 1 January	**9.3**	11.2
Provision released (note 8)	**(0.5)**	(2.2)
Additional amounts provided (note 8)	**0.4**	1.6
Paid during the year	**(6.3)**	(1.1)
Unwind of discounted contingent consideration	–	0.3
Exchange differences[1]	**(0.1)**	(0.5)
At 31 December	**2.8**	9.3

1 Included in other comprehensive income.

£0.4m (2017: £8.0m) of contingent consideration in respect of acquisitions is payable within one year and £2.4m (2017: £1.3m) is payable between one and two years.

The fair value measurement of the contingent consideration could be affected if the forecast financial performance is different to that estimated. A better than estimated performance may increase the value of the contingent consideration payable.

Payables, receivables and construction assets
For payables and receivables with a remaining life of one year or less, the carrying amount is deemed to reflect the fair value. All other payables and receivables are discounted using market rates prevailing at the balance sheet date.

Interest rate and currency profile
The profile of the group's financial assets and financial liabilities after taking account of swaps was as follows:

	2018					
	Sterling	**USD**	**Euro**	**CAD**	**Other[1]**	**Total**
Weighted average fixed debt interest rate	**-**	**-**	**0.5%**	**-**	**11.3%**	**n/a**
Weighted average fixed debt period (years)	**-**	**-**	**0.8**	**-**	**2.1**	**n/a**

	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Fixed rate financial liabilities	**-**	**-**	**(36.0)**	**-**	**(4.5)**	**(40.5)**
Floating rate financial liabilities	**(51.4)**	**(170.5)**	**(3.5)**	**(30.5)**	**(100.3)**	**(356.2)**
Financial assets	**9.9**	**34.4**	**24.7**	**6.1**	**35.4**	**110.5**
Net debt	**(41.5)**	**(136.1)**	**(14.8)**	**(24.4)**	**(69.4)**	**(286.2)**

	2017					
	Sterling	USD	Euro	CAD	Other[1]	Total
Weighted average fixed debt interest rate	–	–	4.3%	–	8.6%	n/a
Weighted average fixed debt period (years)	–	–	1.3	–	1.0	n/a

	£m	£m	£m	£m	£m	£m
Fixed rate financial liabilities	–	–	(33.3)	–	(2.1)	(35.4)
Floating rate financial liabilities	(58.7)	(85.4)	(19.5)	(37.3)	(60.9)	(261.8)
Financial assets	0.2	19.3	16.0	3.9	28.3	67.7
Net debt	(58.5)	(66.1)	(36.8)	(33.4)	(34.7)	(229.5)

1 Included within other floating rate financial liabilities are AUD revolver loans of £39.2m (2017: £23.1m), ZAR revolver loans of £6.6m (2017: £9.2m), SGD revolver loans of £29.5m (2017: £17.2m) and AED revolver loans of £14.3m (2017: £10.3m). Included within other financial assets are AUD cash balances of £5.9m (2017: £4.6m), ZAR cash balances of £5.0m (2017: £2.3m) and SGD cash balances of £2.9m (2017: £2.4m).

Sensitivity analysis
At 31 December 2018, it is estimated that a general increase of one percentage point in interest rates would decrease the group's profit before taxation by approximately £2.6m. The estimated impact of a one percentage point decrease in interest rates is to increase the group's profit before taxation by approximately £2.6m. The impact of interest rate swaps has been included in this calculation.

It is estimated that a general increase of 10 percentage points in the value of sterling against other principal foreign currencies would have decreased the group's profit before taxation and non-underlying items by approximately £8.5m for the year ended 31 December 2018, with the estimated impact of a 10 percentage points decrease in the value of sterling being an increase of £8.8m in the group's profit before taxation and non-underlying items. This sensitivity relates to the impact of retranslation of foreign earnings only. The impact on the group's earnings of currency transaction exchange risk is not significant.

These sensitivities assume all other factors remain constant.

25 Share capital and reserves

	2018 £m	2017 £m
Allotted, called up and fully paid		
Equity share capital:		
73,099,735 ordinary shares of 10p each (2017: 73,099,735)	**7.3**	7.3

The Company has one class of ordinary shares, which carries no rights to fixed income. There are no restrictions on the transfer of these shares.

The capital redemption reserve is a non-distributable reserve created when the Company's shares were redeemed or purchased other than from the proceeds of a fresh issue of shares.

The other reserve is a non-distributable reserve created when merger relief was applied to an issue of shares under section 612 of the Companies Act 2006 to part fund the acquisition of Keller Canada. The reserve becomes distributable should Keller Canada be disposed of.

The total number of shares held in Treasury was 1,039,855 (2017: 1,137,718).

26 Related party transactions

Transactions between the parent, its subsidiaries and joint operations, which are related parties, have been eliminated on consolidation. Other related party transactions are disclosed below:

Compensation of key management personnel

The remuneration of the Board and Executive Committee, who are the key management personnel, comprised:

	2018 £m	2017 £m
Short-term employee benefits	**5.1**	6.3
Post-employment benefits	**0.4**	0.5
Termination payments	**1.4**	–
Share-based payments	–	0.8
	6.9	7.6

Other related party transactions

As at the year-end there was a net balance of £1.1m (2017: £2.0m) owed by the joint venture. These amounts are unsecured, have no fixed date of repayment and are repayable on demand. There were no sales by the group to joint ventures during the period.

27 Commitments

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred was £1.9m (2017: £7.0m) and relates to property, plant and equipment purchases.

Operating lease commitments

At the balance sheet date, the group's total commitments for future minimum lease payments under non-cancellable operating leases were as follows:

	2018			2017		
	Land and buildings £m	**Plant, machinery and vehicles £m**	**Total £m**	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Payable within one year	**14.6**	**6.5**	**21.1**	13.1	5.8	18.9
Payable between one and five years inclusive	**33.1**	**6.5**	**39.6**	36.6	5.6	42.2
Payable in over five years	**6.1**	–	**6.1**	7.1	–	7.1
	53.8	**13.0**	**66.8**	56.8	11.4	68.2

28 Contingent liabilities

Claims against the group arise in the normal course of trading. Some of these claims involve or may involve litigation and, in a few instances, the total amounts claimed against the group may be significant in relation to the size of the related contract. However, the amounts agreed, if any, are generally less than the total amount claimed, in many cases significantly so, and are normally covered by the group's insurance arrangements.

The group has entered into bonds in the normal course of business relating to contract tenders, advance payments, contract performance, the release of retentions and the group's insurance arrangements. The estimated financial effect of these bonds, apart from the fees paid, is £nil (2017: £nil).

The Company and certain of its subsidiary undertakings have entered into a number of guarantees in the ordinary course of business, the effects of which are to guarantee or cross-guarantee certain bank borrowings and other liabilities of other group companies.

At 31 December 2018, the group had outstanding standby letters of credit and surety bonds for the group's captive insurance arrangements totalling £31.2m (2017: £32.8m).

The Company has provided a guarantee of certain subsidiaries' liabilities to take the exemption from having to prepare individual accounts under section 394A and section 394C of the Companies Act 2006 and exemption from having their financial statements audited under sections 479A to 479C of the Companies Act 2006.

29 Share-based payments
The group operates a Long Term Incentive Plan ("Plan").

Outstanding awards are as follows:

	Number
Outstanding at 1 January 2017	979,279
Granted during 2017	650,155
Lapsed during 2017	(281,400)
Outstanding at 31 December 2017 and 1 January 2018	1,348,034
Granted during 2018	668,297
Lapsed during 2018	(278,751)
Exercised during 2018	(97,863)
Outstanding at 31 December 2018	**1,639,717**
Exercisable at 1 January 2017	-
Exercisable at 31 December 2017 and 1 January 2018	-
Exercisable at 31 December 2018	**-**

The average share price during the year was 920.0p.

Under IFRS 2, the fair value of services received in return for share awards granted is measured by reference to the fair value of share options granted. The estimate of the fair value of share awards granted is measured based on a stochastic model. The contractual life of the award is used as an input into this model, with expectations of early exercise being incorporated into the model.

The inputs into the stochastic model are as follows:

	2018	2017
Share price at grant	**1,036p**	879p
Weighted average exercise price	**0.0p**	0.0p
Expected volatility	**30.0%**	31.0%
Expected life	**3 years**	3 years
Risk-free rate	**0.68%**	0.13%
Expected dividend yield	**0.00%**	3.06%

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous three years, adjusted for any expected changes to future volatility due to publicly available information.

The group recognised total expenses (included in operating costs) of £1.4m (2017: £2.8m) related to equity-settled, share-based payment transactions.

The weighted average fair value of options granted in the year was 939.7p (2017: 681.2p).

30 Retirement benefit liabilities
The group operates pension schemes in the UK and overseas.

In the UK, the group operates the Keller Group Pension Scheme ('the Scheme'), a defined benefit scheme, which has been closed to new members since 1999 and was closed to all future benefit accrual with effect from 31 March 2006. Under the Scheme, employees are normally entitled to retirement benefits on attainment of a retirement age of 65. The Scheme is subject to UK pensions legislation which, inter alia, provides for the regulation of work-based pension schemes by the Pensions Regulator. The Trustees are aware of and adhere to the Codes of Practice issued by the Pensions Regulator. The Scheme Trustees currently comprise one member-nominated Trustee and one employer-nominated Trustee. The employer-nominated Trustee is also the Chair of the Trustees. The Scheme exposes the group to actuarial risks, such as longevity risk, interest rate risk and market (investment) risk, which are managed through the investment strategy to acceptable levels. The Scheme can invest in a wide range of asset classes including equities, bonds, cash, property, alternatives (including private equity, commodities, hedge funds, infrastructure, currency, high yield debt and derivatives) and annuity policies. Any investment in derivative instruments is only made to contribute to a reduction in the overall level of risk in the portfolio or for the purposes of efficient portfolio management. With effect from the most recent actuarial valuation date (5 April 2017), the group has agreed to pay annual contributions of £2.4m, to increase by

3.6% per annum, until 5 January 2024, however the level of employer contributions will be reviewed at the next actuarial review in 2020.

Between 1990 and 1997 the Scheme members accrued a Guaranteed Minimum Pension ("GMP"). This amount differed between men and women. On 26 October 2018 there was a court judgement (in the case of Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC) that confirmed that GMP is to be made equal for men and women. The estimated increase in the Scheme's liabilities is £1.3m, which has been recognised as a past service cost in 2018 as a charge to non-underlying items (note 8). The actual cost may differ when the GMP equalisation exercise is complete.

The group has two UK defined contribution retirement benefit schemes. There were no contributions outstanding in respect of these schemes at 31 December 2018 (2017: £nil). The total UK defined contribution pension charge for the year was £1.0m (2017: £1.0m).

The group also has defined benefit retirement obligations in Germany and Austria. Under these schemes, employees are entitled to retirement benefits on attainment of a retirement age of 65, provided they have 15 years of employment with the group. The amount of benefit payable depends on the grade of employee and the number of years of service, up to a maximum of 40 years. Benefits under these schemes only apply to employees who joined the group prior to 1991. These defined benefit retirement obligations are funded on the group's balance sheet and obligations are met as and when required by the group.

The group operates a defined contribution scheme for employees in North America, where the group is required to match employee contributions up to a certain level in accordance with the scheme rules. The total North America pension charge for the year was £5.5m (2017: £5.4m).

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 9.5% (2017: 9.5%). The total Australian pension charge for the year was £5.1m (2017: £4.1m).

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

	The Keller Group Pension Scheme (UK) 2018 £m	The Keller Group Pension Scheme (UK) 2017 £m	**German and Austrian Schemes 2018 £m**	German and Austrian Schemes 2017 £m
Present value of the scheme liabilities	**(55.2)**	(58.9)	**(16.5)**	(16.4)
Present value of assets	**45.2**	46.1	–	–
Deficit in the scheme	**(10.0)**	(12.8)	**(16.5)**	(16.4)
Irrecoverable surplus	**(1.4)**	–	–	–
Net defined benefit liability	**(11.4)**	(12.8)	**(16.5)**	(16.4)

Based on the net deficit of the Keller Group Pension Scheme as at 31 December 2018 and the committed payments under the Schedule of Contributions signed on 15 June 2018, there is a notional surplus of £1.4m. Management is of the view that, based on the scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' of £1.4m has been recognised.

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

	The Keller Group Pension Scheme (UK) 2018 %	The Keller Group Pension Scheme (UK) 2017 %	**German and Austrian Schemes 2018 %**	German and Austrian Schemes 2017 %
Discount rate	**2.9**	2.5	**1.55**	1.4
Interest on assets	**2.9**	2.5	**n/a**	n/a
Rate of increase in pensions in payment	**3.55**	3.45	**2.0**	2.0
Rate of increase in pensions in deferment	**3.5**	3.4	**2.0**	2.0
Rate of inflation	**3.5**	3.4	**2.0**	2.0

The mortality rate assumptions are based on published statistics. The average remaining life expectancy, in years, of a pensioner retiring at the age of 65 at the balance sheet date is:

	The Keller Group Pension Scheme (UK) 2018	The Keller Group Pension Scheme (UK) 2017	**German and Austrian Schemes 2018**	German and Austrian Schemes 2017
Male currently aged 65	**22.2**	22.4	**20.6**	19.3
Female currently aged 65	**23.6**	23.8	**24.0**	23.3

The assets of the schemes were as follows:

	The Keller Group Pension Scheme (UK) 2018 £m	The Keller Group Pension Scheme (UK) 2017 £m	**German and Austrian Schemes 2018 £m**	German and Austrian Schemes 2017 £m
Equities	**14.2**	14.8	–	–
Target return funds	**12.7**	12.4	–	–
Gilts	**9.5**	9.5	–	–
Bonds	**8.7**	9.2	–	–
Cash	**0.1**	0.2	–	–
	45.2	46.1	–	–

	The Keller Group Pension Scheme (UK) 2018 £m	The Keller Group Pension Scheme (UK) 2017 £m	**German and Austrian Schemes 2018 £m**	German and Austrian Schemes 2017 £m
Changes in scheme liabilities				
Opening balance	**(58.9)**	(58.4)	**(16.4)**	(16.4)
Current service cost	**–**	–	**(0.4)**	(0.3)
Past service cost in respect of GMP (note 8)	**(1.3)**	–	–	–
Interest cost	**(1.4)**	(1.6)	**(0.2)**	(0.2)
Benefits paid	**2.7**	3.0	**0.8**	0.8
Exchange differences	–	–	**(0.3)**	(0.4)
Experience gain on defined benefit obligation	–	0.8	–	–
Changes to demographic assumptions	**0.3**	(1.1)	–	–
Changes to financial assumptions	**3.4**	(1.6)	–	0.1
Closing balance	**(55.2)**	(58.9)	**(16.5)**	(16.4)

	The Keller Group Pension Scheme (UK) 2018 £m	The Keller Group Pension Scheme (UK) 2017 £m	German and Austrian Schemes 2018 £m	German and Austrian Schemes 2017 £m
Changes in scheme assets				
Opening balance	**46.1**	43.4	**–**	–
Interest on assets	**1.1**	1.1	**–**	–
Administration costs	**(0.2)**	(0.2)	**–**	–
Employer contributions	**2.4**	1.6	**–**	–
Benefits paid	**(2.7)**	(3.0)	**–**	–
Return on plan assets less interest	**(1.5)**	3.2	**–**	–
Closing balance	**45.2**	46.1	**–**	–
Actual return on scheme assets	**(0.4)**	4.3	**–**	–
Statement of comprehensive income				
Return on plan assets less interest	**(1.5)**	3.2	**–**	–
Experience gain on defined benefit obligation	**-**	0.8	**–**	–
Changes to demographic assumptions	**0.3**	(1.1)	**–**	–
Changes to financial assumptions	**3.4**	(1.6)	**–**	0.1
Change in irrecoverable surplus	**(1.4)**	–	**–**	–
Remeasurements of defined benefit plans	**0.8**	1.3	**–**	0.1
Cumulative remeasurements of defined benefit plans	**(23.6)**	(24.4)	**(7.0)**	(7.0)
Expense recognised in the income statement				
Current service cost	–	–	**0.4**	0.3
Past service cost in respect of GMP (note 8)	**1.3**	–	–	–
Administration costs	**0.2**	0.2	–	–
Operating costs	**1.5**	0.2	**0.4**	0.3
Net pension interest cost	**0.3**	0.5	**0.2**	0.2
Expense recognised in the income statement	**1.8**	0.7	**0.6**	0.5
Movements in the balance sheet liability				
Net liability at start of year	**12.8**	15.0	**16.4**	16.4
Expense recognised in the income statement	**1.8**	0.7	**0.6**	0.5
Employer contributions	**(2.4)**	(1.6)	–	–
Benefits paid	–	–	**(0.8)**	(0.8)
Exchange differences	–	–	**0.3**	0.4
Remeasurements of defined benefit plans	**(0.8)**	(1.3)	–	(0.1)
Net liability at end of year	**11.4**	12.8	**16.5**	16.4

A reduction in the discount rate of 0.1% would increase the deficit in the schemes by £1.1m, whilst a reduction in the inflation assumption of 0.1%, including its impact on the revaluation in deferment and pension increases in payment, would decrease the deficit by £0.7m. An increase in the mortality rate by one year would increase the deficit in the schemes by £3.3m.

The weighted average duration of the defined benefit obligation is approximately 17 years for the UK scheme and 12 years for the German and Austrian schemes.

The history of experience adjustments on scheme assets and liabilities for all the group's defined benefit pension schemes are as follows:

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of defined benefit obligations	**(71.7)**	(75.3)	(74.8)	(61.3)	(63.6)
Fair value of scheme assets	**45.2**	46.1	43.4	38.2	38.2
Deficit in the schemes	**(26.5)**	(29.2)	(31.4)	(23.1)	(25.4)
Irrecoverable surplus	**(1.4)**	–	–	–	–
Net defined benefit liability	**(27.9)**	(29.2)	(31.4)	(23.1)	(25.4)
Experience adjustments on scheme liabilities	**3.7**	(1.8)	(11.3)	1.6	(5.7)
Experience adjustments on scheme assets	**(1.5)**	3.2	3.9	(1.3)	1.6

31. Post balance sheet events

In February 2019, £3.4m of proceeds were received on settlement of a contributory claim relating to the 2014 exceptional contract dispute. This will be recognised as exceptional other operating income in 2019 as the receipt of these proceeds was not considered virtually certain as at 31 December 2018.

Adjusted performance measures

The group's results as reported under International Financial Reporting Standards (IFRS) and presented in the financial statements (the 'statutory results') are significantly impacted by movements in exchange rates relative to sterling, as well as by exceptional items and non-trading amounts relating to acquisitions.

As a result, adjusted performance measures have been used throughout the Annual Report and Accounts to describe the group's underlying performance. The Board and Executive Committee use these adjusted measures to assess the performance of the business because they consider them more representative of the underlying ongoing trading result and allow more meaningful comparison to prior year.

Underlying measures

The term 'underlying' excludes the impact of items which are exceptional by their size or are non-trading in nature, including amortisation of acquired intangible assets and other non-trading amounts relating to acquisitions (collectively 'non-underlying items'), net of any associated tax. Underlying measures allow management and investors to compare performance without the potentially distorting effects of one-off items or non-trading items. Non-underlying items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the group.

Constant currency measures

The constant currency basis ('constant currency') adjusts the comparative to exclude the impact of movements in exchange rates relative to sterling. This is achieved by retranslating the 2017 results of overseas operations into sterling at the 2018 average exchange rates.

A reconciliation between the underlying results and the reported statutory results is shown on the face of the consolidated income statement, with non-underlying items detailed in note 8. A reconciliation between the 2017 underlying result and the 2017 constant currency result is shown below and compared to the underlying 2018 performance:

Revenue by segment

	2018	2017				
	Statutory £m	Statutory £m	Impact of exchange movements £m	Constant currency £m	**Statutory change %**	**Constant currency change %**
North America	**1,161.4**	968.7	(29.5)	939.2	**+20%**	**+24%**
EMEA	**668.2**	737.2	(12.0)	725.2	**-9%**	**-8%**
APAC	**394.9**	364.7	(16.6)	348.1	**+8%**	**+13%**
Group	**2,224.5**	2,070.6	(58.1)	2,012.5	**+7%**	**+11%**

Underlying operating profit by segment

	2018	2017				
	Underlying £m	Underlying £m	Impact of exchange movements £m	Constant currency £m	**Underlying change %**	**Constant currency change %**
North America	**78.6**	78.7	(2.4)	76.3	–	**+3%**
EMEA	**39.7**	53.3	(1.3)	52.0	**-26%**	**-24%**
APAC	**(18.0)**	(16.5)	0.2	(16.3)	**-9%**	**-10%**
Central items and eliminations	**(3.7)**	(6.8)	–	(6.8)	**46%**	**46%**
Group	**96.6**	108.7	(3.5)	105.2	**-11%**	**-8%**

Underlying operating margin

Underlying operating margin is underlying operating profit as a percentage of revenue.

Other adjusted measures

Where not presented and reconciled on the face of the consolidated income statement, consolidated balance sheet or consolidated cash flow statement, the adjusted measures are reconciled to the IFRS statutory numbers below:

EBITDA

	2018 £m	2017 £m
Underlying operating profit	**96.6**	108.7
Depreciation of property, plant and equipment	**69.7**	67.3
Amortisation of intangible assets	**1.2**	1.2
Underlying EBITDA	**167.5**	177.2
Non-underlying items in operating costs	**(64.2)**	(1.6)
Non-underlying items in other operating income	**0.5**	23.2
EBITDA	**103.8**	198.8

EBITDA on a covenant basis

	2018 £m
Underlying EBITDA	**167.5**
Estimated adjustment to include 12 months' EBITDA from acquisitions	**2.8**
EBITDA on a covenant basis	**170.3**

Net finance costs

	2018 £m	2017 £m
Finance income	**(0.6)**	(3.8)
Underlying finance costs	**16.7**	13.8
Underlying net finance costs	**16.1**	10.0
Non-underlying finance costs	**0.5**	0.7
Net finance costs	**16.6**	10.7

Net capital expenditure

	2018 £m	2017 £m
Acquisition of property, plant and equipment	**85.1**	84.2
Acquisition of other intangible assets	**0.5**	0.8
Proceeds from sale of property, plant and equipment	**(8.5)**	(10.5)
Net capital expenditure	**77.1**	74.5

Net debt

	2018 £m	2017 £m
Current loans and borrowings	**42.8**	48.3
Non-current loans and borrowings	**353.9**	248.9
Cash and cash equivalents	**(110.5)**	(67.7)
Net debt	**286.2**	229.5

Order book

The group's disclosure of its order book is aimed to provide insight into its backlog of work and future performance. The group's order book is not a measure of past performance and therefore cannot be derived from its financial statements. The group's order book comprises the unexecuted elements of orders on contracts that have been awarded. Where a contract is subject to variations, only secured variations are included in the reported order book.