Severfield

BUILDING FROM A STRONG FOUNDATION

Annual report and accounts
for the year ended 31 March 2017
Stock code: SFR
www.severfield.com

ANNUAL REPORT 2017

severfield.annualreport2017.com

WELCOME TO OUR ANNUAL REPORT 2017

Severfield is the largest specialist structural steelwork group in the UK, with a growing presence in India and a reputation for performance and value.

"It has been another year of good progress, both operationally and strategically."

John Dodds
Executive chairman

Read more on **our chairman's view** on page 06

"We are well on track to double our 2016 profits by 2020."

Alan Dunsmore
Acting chief executive officer

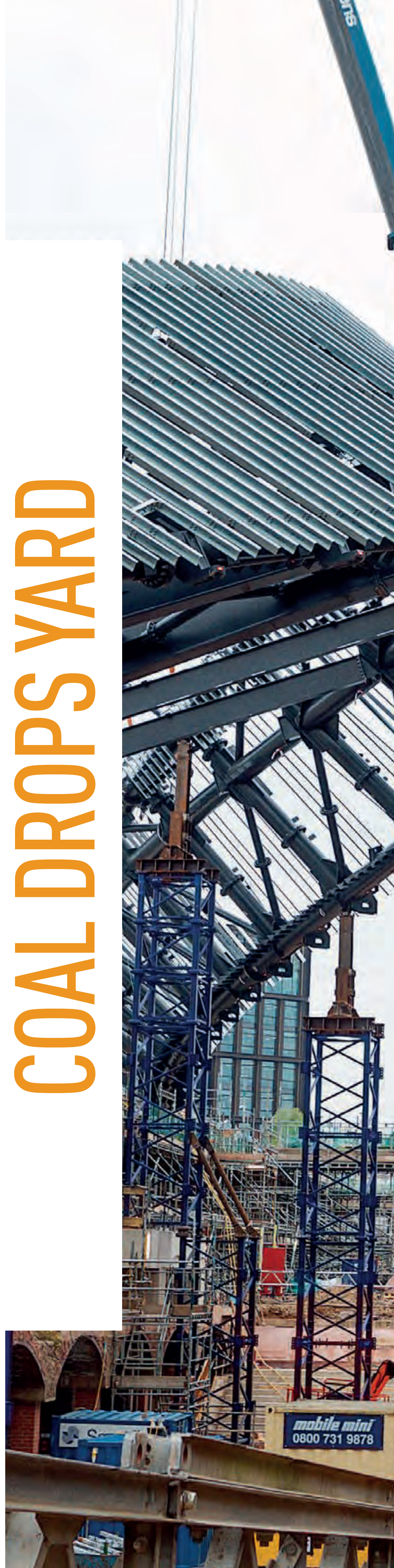
Read more about **our strategy** on page 22

BUILDING FROM A STRONG FOUNDATION

Severfield

THE STRENGTH WITHIN ICONIC STRUCTURES

COAL DROPS YARD



Location
King's Cross, London

Client
Argent Group

Main contractor
BAM Construction

Engineer
ARUP

Architect
Heatherwick Studio (concept)/
BAM Design (delivery)

Tonnage
1,300

Completion date
August 2017

The project involves the redevelopment of the historic Coal Drops building and Victorian brick arches at King's Cross, London to provide approximately 100,000 square feet of retail, restaurant and events space.

The Coal Drops, which are brick and cast iron structures previously used for sorting and storing coal, were built in the middle of the 19th century. They are currently being restored as part of the project which will become a unique new retail quarter.

For the project, Severfield is providing connection design, fabrication and construction of the steelwork and the temporary works required to support the new roof during construction.

The most complex feature, the new ribbon truss roof, is made up of twenty bespoke tubular parts, which were sub-assembled into eight modules on the ground before being lifted into place by a 500-tonne capacity mobile crane. This new roof provides a continuation of the existing slate roof, and will connect the two existing buildings at upper level via a suspended floor. To further minimise the amount of work performed at height, Severfield also performed paint touch-up and purlin installation on the ground.

Severfield also erected new beam and column steelwork inside both of the existing masonry buildings, which was challenging due to the restricted working space.


sarens
JLG

ORDSALL CHORD

Location
Ordsall, Greater Manchester

Client
Northern Hub Alliance

Main contractor
Skanska BAM JV

Engineer
AECOM Mott MacDonald JV

Architect
BDP

Tonnage
3,800

Completion date
September 2017

Part of Network Rail's multi-billion pound North of England programme, the Ordsall Chord is the development of a new section of railway which will provide a link for the first time between Manchester Piccadilly, Oxford Road and Manchester Victoria stations.

As part of the Northern Hub Alliance delivery team, which also includes Network Rail, Siemens, Amey Sersa JV, BDP, Skanska BAM JV, and AECOM Mott MacDonald JV, Severfield is responsible for fabricating, supplying and constructing nine new steel bridges.

The main bridge structures are:

Irwell Crossing (pictured) – is the project's centrepiece bridge and also the UK's first network arch bridge. The development of this 90 metre long bridge, which consists of *c.* 1,200 tonnes of structural steel, has been undertaken in a manner which is sympathetic to the adjacent historic George Stephenson railway bridge. Its steel arches were assembled by Severfield close to the River Irwell and then tandem lifted into position using two large crawler cranes onto the steel composite deck which was supported by temporary trestles. The arches were then welded to the deck on site.

Trinity Way Viaduct – is a three-span structure which is 112 metres long and weighs *c.* 1,300 tonnes. The project contains an architectural steel element known as the 'Swoosh' to ensure that the steelwork from the arch bridge seamlessly blends into the viaduct giving the impression of one long continuous steel structure between the two bridges. The viaduct was installed in pieces up to 20 metres long and weighing up to 60 tonnes each. It was constructed in two phases and lifted into place using various large crawler cranes, the heaviest lift being 130 tonnes.

VICTORIA & ALBERT MUSEUM

Location
Dundee

Client
Dundee City Council

Main contractor
BAM Construction

Engineer
ARUP

Architect
Kengo Kuma & Associates

Tonnage
780

Completion date
January 2017

The Victoria & Albert Museum is Scotland's first museum dedicated to design and the only other V&A museum outside of London.

The museum comprises two separate three storey buildings with sloping external walls which merge together to form one building at roof level. The building changes shape and orientation at each level and is clad with decorative precast concrete units which were inspired by Scotland's cliffs.

The building structure is made up of in-situ concrete sloping walls around the perimeter, with further concrete walls and cores internally to provide stability. The elevated structural steel and metal decking floors span between the external walls and internal cores at three levels to tie the whole structure together. Long span beams and trusses have been utilised to achieve large clear span areas, suitable for the museum galleries. The nature of the design required large numbers of heavy connections between the floor beams and the concrete walls. Heavily engineered cast-in plates and site welded connections were developed by Severfield specifically for this project.

Due to the interdependency of the steel and concrete elements, the construction sequence for this building was developed collaboratively by BAM and all the main sub-contractors. The working area around the site was also very limited, which further promoted the need for coordination and cooperation between all parties.

WIMBLEDON NO.1 COURT ROOF

Location
Wimbledon, London

Client
The All England Lawn Tennis Club (AELTC)

Main contractor
Sir Robert McAlpine

Engineer
Thornton Tomasetti

Architect
KSS

Tonnage
4,900

Completion date
January 2019

The redevelopment of No.1 Court at Wimbledon is part of a multi-million pound project by The All England Lawn Tennis Club.

The project will add a new roof with fixed and moveable components, increase seating capacity by 900 seats on two new tiers, create a new two-level public plaza, and upgrade the court's seats, concessions, catering areas and hospitality facilities. This will transform the stadium into a grass court arena capable of guaranteed play in all weather conditions.

The main feature of the project is the addition of the retractable roof, which is similar to the one installed on Centre Court by Severfield in 2009. The project includes the installation of a new fixed roof, to support the moving elements of the new retractable roof, and a structural steel mainframe with pre-cast concrete terracing to increase the seating capacity to approximately 12,400. The structure has been designed to allow the maximum amount of sunlight to the grass court whilst also optimising the spectator viewing.

The housing of the mechanisms within the roof that control the air temperature and humidity for optimum playing conditions have led to a complex structural arrangement that has tested our design, fabrication and construction capabilities. The project has been planned over a three-year period with two breaks in the site activities to accommodate the dates of the tournament. The new retractable roof is expected to be complete in time for the 2019 Championships.

22 BISHOPSGATE

Location
City of London

Client
AXA Real Estate

Main contractor
Multiplex Europe

Engineer
WSP UK

Architect
PLP Architecture

Tonnage
16,000

Completion date
December 2018

Located in the heart of the City of London, 22 Bishopsgate is a new 62-storey office tower situated within the City's cluster of tall buildings.

The completed project will provide approximately 1.3 million square feet of office space, 43,000 square feet for restaurants and retail facilities and a public viewing gallery at the top.

The project is built on the existing foundations, three-storey basement and seven-storey core that were previously constructed as part of 'The Pinnacle' project, which was suspended in 2012. The building has a concrete central core and a steel frame superstructure consisting of steel beams which act compositely with concrete slabs, cast onto permanent metal decking. Outriggers are located on certain higher floors to limit the wind induced drift. A series of transfer structures below ground floor carry the superstructure loads into the existing Pinnacle foundations. The footprint of the building is larger than the existing basement and, accordingly, the superstructure columns on the perimeter of the structure have been designed and sloped to meet the existing foundations.

For the project, Severfield is providing the connection design, fabrication and construction of *c.* 16,000 tonnes of structural steel, which includes the use of Fabsec plated composite beams from level 10 upwards. Other services and fixtures include the installation of *c.* 1.6 million square feet of metal decking and 500,000 shear studs. Severfield is also providing full edge protection to the floors using the 'Seversafe' edge protection system and 'Seversafe' perimeter fan system.

View this annual report online:
severfield.annualreport2017.com

We maintain a corporate website at www.severfield.com containing a wide range of information of interest to institutional and private investors including:

— Latest news and press releases

— Annual reports and investor presentations

SEVERFIELD – A SNAPSHOT

What we want to be

Our vision

Our vision is to be recognised as world-class leaders in structural steel, known for our ability to deliver any project to the highest possible standards.

What we set out to achieve

Our mission

As ambitious, innovative leaders in a demanding and ever developing industry, we will use our collective strengths and resources to build the capacity required to deliver the structures of the future.

What defines us

Our values

Safety

There's a reason it's known as 'safety first'. We make no apologies for the fact that profit and loss, deadlines and headlines all come second to making sure everyone goes home safely every day.

Customer focus

Our clients are paramount in all that we do. We are here to understand their requirements and meet their aspirations. Together we will deliver projects of which we can all be proud.

Integrity

We operate in a complex and challenging industry, one that often requires innovative thinking and a flexible approach to deliver successful outcomes. The one thing we'll never compromise on is our integrity, which ensures we're able to maintain the exceptionally high standards we set for ourselves.

Commitment

We may move with the times, but our long and rich history means that we have a few old-fashioned beliefs. One of those beliefs is that you stand by your word. When Severfield say we'll deliver, whatever challenges lie ahead, you can depend on us to deliver, and to the highest possible standards.

What we do

See **how we create value** on page 14

Our business model

We manage every aspect of the fabrication and construction process, from initial scheme design, through detailing, specification and manufacture to the eventual handover to our clients of a quality product on-site.

Design Fabricate Construct

How we will achieve our vision

Our strategy

See **our strategy** on page 22

Our strategy revolves around five main elements. This is aided by our business improvement programme, '***Smarter, Safer, more Sustainable***'.

Growth
Operational Excellence
Clients
People
India

How we impact on society

Resources and relationships

See **how we create value** on page 14

There are four main areas where our business model impacts on society and where we have responsibilities that extend beyond financial performance:

Safety, Health and Environment
Sustainability
People
Communities

How we measure success

Our KPIs

See **key performance indicators** on page 28

We use a combination of financial and non-financial key performance indicators ('KPIs') to measure our progress in delivering our strategic priorities.

How we manage threats

Our risks

See **how we manage risk** on page 50

Risk management is at the heart of how the business is run and supports the Group's strategic objectives. We have identified eight principal risks and uncertainties which have the potential to impact the Group's business model and strategy.

Where we do it

See **the scale of our operations** on page 10

Our Group

Severfield (UK),
Dalton, North Yorkshire and Lostock, Lancashire

Severfield (Design & Build),
Sherburn, North Yorkshire

Severfield (NI),
Ballinamallard, Co. Fermanagh

JSW Severfield Structures
Mumbai, India

Composite Metal Flooring
Monmouthshire, Wales

How we govern ourselves

Our governance

See more on **governance** on page 67

We are committed to maintaining the highest standards of corporate governance and ensuring that values and behaviours are consistent across our businesses. We encourage open and honest discussion and constructive challenge across the Group to ensure that best practice is maintained. This culture is integral to our business model and strategy and for the benefit of our shareholders. Our KPIs for profitability, accident frequency rate ('AFR') and cash flow generation are linked to our performance share plan and annual incentive arrangements to ensure that the remuneration of our directors is aligned with our strategic priorities.

Who we serve

See **the markets we serve** on page 18

Markets

Our state-of-the-art facilities provide steel structures which serve people every day, whether for work, leisure or travel, or to provide essential services, including power and energy, health and education. We have extensive experience in multiple market sectors, which supports the business through changes in spending patterns and fluctuations in macroeconomic conditions.

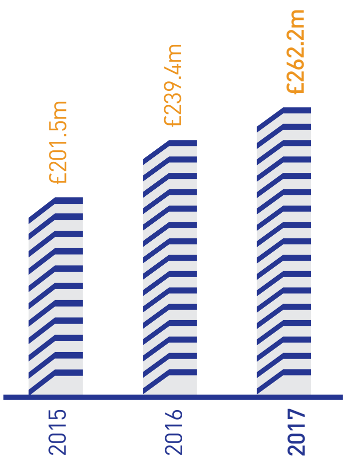
OUR YEAR

FINANCIAL HIGHLIGHTS

Revenue

£262.2m

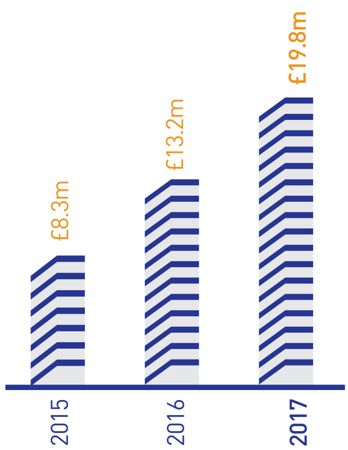
2016: £239.4m



Underlying* profit before tax

£19.8m

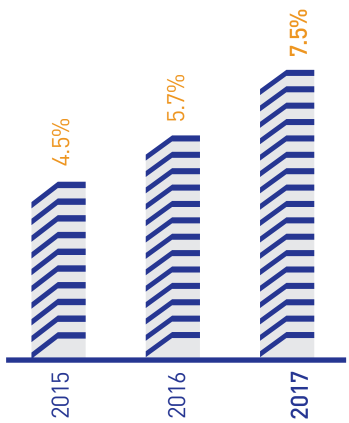
2016: £13.2m



Underlying* operating margin

7.5%

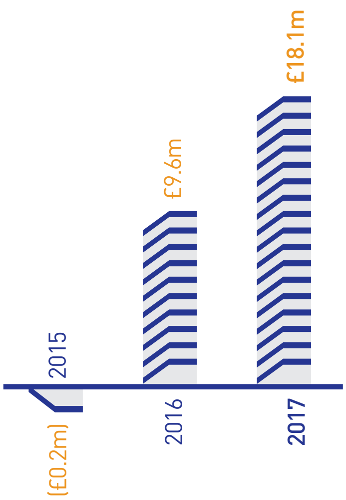
2016: 5.7%



Profit before tax

£18.1m

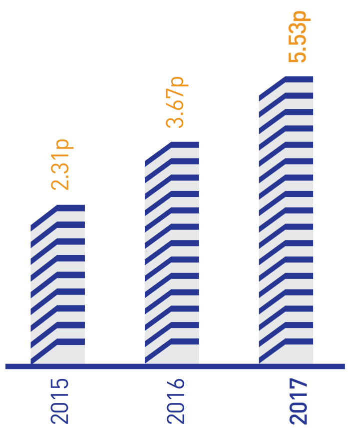
2016: £9.6m



Underlying* basic earnings per share

5.53p

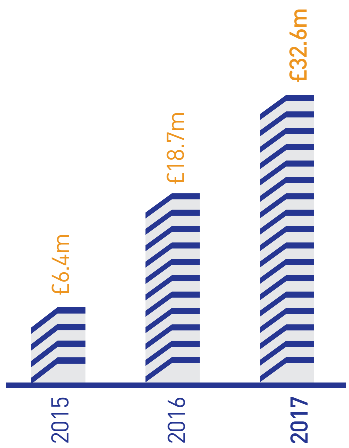
2016: 3.67p



Net funds

£32.6m

2016: £18.7m



OPERATIONAL HIGHLIGHTS

- Revenue up 10 per cent to £262.2m (2016: £239.4m)
- Underlying* profit before tax up 50 per cent to £19.8m (2016: £13.2m)
- Continued strong cash performance with operating cash conversion of 112 per cent (2016:150 per cent), resulting in year-end net funds of £32.6m (2016: £18.7m)
- Profit before tax up 89 per cent to £18.1m (2016: £9.6m)
- Total dividend increased by 53% to 2.3p per share (2016: 1.5p per share), includes proposed final dividend of 1.6p per share
- Return on capital employed ('ROCE') of 14.6 per cent (2016: 9.7 per cent)
- Over 110 projects undertaken during the year in key market sectors including Wimbledon No.1 Court, a major new commercial head office building in London, the new stadium for Tottenham Hotspur F.C. and a new commercial office tower at 22 Bishopsgate
- Share of profit from Indian joint venture of £0.2m (2016: loss of £0.3m) reflecting stability of the business and move to profit for the first time
- Equity investment of £5.3m in India being made post year-end to repay term loan
- UK order book of £229m at 1 June 2017 (1 June 2016: £270m), reflecting a return to more 'normal' order book levels
- India order book of £73m at 1 June 2017 (1 June 2016: £33m)
- Good progress made towards strategic objective of doubling underlying profit before tax by 2020

Read more about **our operating performance** on page 30

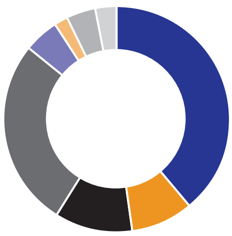
UK order book June 2017

£229m

Commercial offices	54%
Transport (including bridges)	7%
Industrial and distribution	9%
Stadia and leisure	23%
Power and energy	4%
Data centres and other	1%
Retail	1%
Health and education	1%

UK order book June 2016

£270m



Commercial offices	39%
Transport (including bridges)	9%
Industrial and distribution	11%
Stadia and leisure	27%
Power and energy	5%
Data centres and other	2%
Retail	4%
Health and education	3%

*Underlying results are stated before non-underlying items of £1.8m (2016: £3.5m):

- Amortisation of acquired intangible assets – £2.6m (2016: £2.6m)
- Movement in fair value of derivative financial instruments – gain of £0.8m (2016: loss of £0.9m)
- The associated tax impact of the above, together with the impact of a reduction in future corporation tax rates on deferred tax liabilities – £0.6m (2016: £1.2m)

OUR CHAIRMAN'S VIEW

2017 has been another year of good progress, both operationally and strategically. We have increased our underlying pre-tax profits by 50 per cent and continued to invest in the business, thereby setting the foundations upon which we will continue to implement our strategy.

John Dodds
Executive chairman

2017 has been another year of good progress for the Group, both operationally and strategically. The Group has delivered a second successive year of strong revenue growth, with revenue of £262.2m representing a 10 per cent increase from the previous year. This growth is reflected in the significant improvement in underlying* operating profit (before JVs and associates), which has increased by 43 per cent to £19.6m, along with continued good cash generation. The higher underlying operating profit (before JVs and associates) reflects an improvement in operating margin (before JVs and associates) (from 5.7 per cent in the prior year to 7.5 per cent), which has continued to benefit from the embedding of operational efficiencies across the Group through better contract execution and improved flow of fabrication processes in our factories. In addition, our new joint venture, CMF Limited, is performing well and its integration into the supply chain has had a beneficial impact on operating margins as well as the share of results from JVs and associates.

Underlying* profit before tax has increased by 50 per cent to £19.8m from £13.2m in the previous year. This mainly reflects both the good performance in the UK and a stable year-on-year performance from our Indian joint venture resulting from a consistent order book and good levels of production through the factory. Overall, we are very pleased with the profit progress we have made during the year which positions us well to achieve our previously stated strategic target of doubling our 2016 underlying profit before tax over the following four years.

Read more about **our operating performance** on page 30

Our Group balance sheet continues to be very strong. Year-end net funds were £32.6m, an increase of £13.9m over 2016, a result of our excellent cash generation during the year (operating cash conversion was 112 per cent). This underlying cash performance has enabled further capital investment in 2017, demonstrating our commitment to developing and improving the business.

Dividends

We have a progressive dividend policy which has established clear priorities for the use of capital. The total dividend for the year has been increased by 53 per cent to 2.3p per share (2016: 1.5p per share) which includes a proposed final dividend of 1.6p per share (2016: 1.0p per share). This reflects the improved result for the year and the board's confidence in the future prospects of the Group.

Read more about **our financial performance** on page 36

Interim board change

On 28 March 2017, following the temporary leave of absence of Ian Lawson due to physical ill health, I agreed to act as executive chairman on an interim basis and am working with Alan Dunsmore, who has assumed the role of chief executive on a similar basis. Adam Semple, the Group financial controller, has temporarily taken on the responsibilities of Group finance director.

Read more about **our governance** on page 67

Strategy and markets

Reviewing the strategic objectives of the Group, continuing to assess their appropriateness, and evaluating progress against these objectives has continued to be a key focus for the board. During the year, the board held strategy sessions at which we challenged and shaped the strategic priorities presented by management.

We have again made good progress against our strategic priorities during the year. We have seen further growth in revenue and underlying pre-tax profits, continued operating margin improvement and ongoing investment in our clients, people and facilities. We are also seeking to develop opportunities in continental Europe and have recruited a new European business development director, the first time that we have had a full-time employee to focus on this market.

We will continue to build on our breadth of capability and service levels to clients to take advantage of opportunities in both our core construction and infrastructure sectors. In particular, the UK Government has stated its commitment to significant improvements to infrastructure including HS2, Hinkley Point (nuclear power station) and a new runway at Heathrow Airport in addition to the ongoing Network Rail and Highways England investment programmes, all of which represent opportunities for the Group in the medium term.

Read more about **our strategy** on page 22

Brexit

The decision of the UK to leave the European Union has so far not had any significant impact on the Group. Although Brexit has the potential to change the competitive and commercial landscape for the Group and the construction industry as a whole, the extent of this is likely to remain unclear for some time. We remain vigilant to respond to any such changes in market conditions.

Read more about **how we manage risk** on page 50

People

On behalf of the board I would like to thank all of our employees for the hard work and commitment they have again shown this year. The safety of our people remains central to all of the Group's operations and our extensive programme of activities and improvements continued during the year under the direction of Phillipa Recchia, our new Group SHE director. We have continued to build on the initial success of our behavioural safety programme and are now in the process of further developing the safety culture of the Group.

The Group's AFR for the year, which includes our Indian joint venture, was 0.24 (2016: 0.25). This includes an AFR of 0.42 for our UK operations, a slight improvement from the 0.44 achieved in 2016.

Read more about **building a sustainable business** on page 42

Outlook

Our performance in 2017 demonstrates the considerable strategic and operational progress that we have made over the last few years and the underlying strength of the Group. We now have a strong basis from which to continue to implement our strategy and to create value for our shareholders.

John Dodds
Executive chairman
14 June 2017

* The basis for stating results on an underlying basis is set out on page 5.

Corporate governance

You can read more about how we comply with the UK Corporate Governance Code in the sections below:

OUR UNIQUE OFFERING

Severfield is the UK's market-leading structural steel company, the home of world-class engineering and design excellence.

1 Client focus

We are committed to outstanding customer service. An essential part of project delivery is understanding our clients' requirements and aspirations. This builds secure, sustainable and mutually valuable relationships and creates lasting client satisfaction.

2 Experience

We have unrivalled experience and capability in the design, fabrication and construction of steel structures. The breadth of expertise in our workforce ensures that we can serve a diverse range of market sectors, positioning us well for future growth.

3 Integrated approach from design to construction

By engaging with our clients in the design stage, our understanding of their requirements is enhanced and adds value throughout the project life cycle. Our in-house design and construction teams work closely together to create the most efficient and safest solutions that match our clients' needs.

4 Scale

Severfield is the largest structural steel business in the UK and one of the largest in Europe, with a growing presence in India, providing unrivalled capacity and capability.

5

Innovation

Innovative thinking is integral to our approach, giving us flexibility in how we deliver projects for our clients. This means that our business can easily adapt to the trends across all the sectors that we serve.

6

Cost base

Our operational improvement programme involves close management of our cost base. This has generated steady margin improvement, keeps our offering competitive and allows us to reinvest in the business.

7

Productivity

Our continued investment in market-leading technology, plant and equipment leads to higher quality products with a shorter turnaround, increasing the productivity of our operations.

8

Supply chain strengths

Careful management of the supply chain is an essential part of improving efficiency. We are well positioned to manage any change in UK steel supply. We choose supply chain partners who match our expectations in terms of quality, sustainability and commitment to client service.

THE SCALE OF OUR OPERATIONS

Unrivalled capacity and capability

The Group operates across four main locations in the UK which provide unrivalled capacity and capability. We also have joint venture operations in India, which forms part of our international growth plans, and in Wales, which further strengthens our supply chain.

Composite Metal Flooring Limited

The company, of which we have a 50 per cent share, provides a state-of-the-art manufacturing facility in South Wales. This facility houses three dedicated roll forming production lines, developed solely for the manufacture of MetFloor® metal decking.

CMF is a specialist designer, manufacturer, innovator and installer of profiled MetFloor® metal decking, the first choice material for any composite decking construction – from car parks to football stadia.

CMF has invested further allowing for the production of purlins and additional cold-formed products.

JSW Severfield Structures Limited

60,000 tonnes per year capacity

c.600 employees

The company, a joint venture with JSW Steel (India's largest steel producer), which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the growing Indian market. Successes to date include prestigious projects for companies such as Reliance Industries, ITC, NetApp, Siemens, Doosan, Indiabulls, Prestige, Procter & Gamble, Michelin and OPG Power.

Its state-of-the-art facility consists of two fabrication lines, a plate (INDISEC®) line, a smaller welded beam line, a bit shop and a bay to provide bespoke off-line heavy fabrication, tubular products, specialised multi-coat painting and further bogey line fabrication. Off-line facilities are available to manufacture hand-railing, stairs and other ancillary products.

The facility has been designed to optimise product range, quality and productivity, and incorporates cutting-edge technology and processing equipment.

Severfield (Design & Build) Limited

25,000 tonnes per year capacity

c.250 employees

The company, located in Sherburn, near Scarborough, is the principal design and build steelwork contractor for distribution warehouses and low-rise structures in the UK.

The company designs, fabricates and constructs structural steelwork and portal frames principally for the warehouse, distribution and industrial sectors. It also operates a specialist steel stair and metalwork division and applies its expertise in the commercial, residential, health and education sectors.

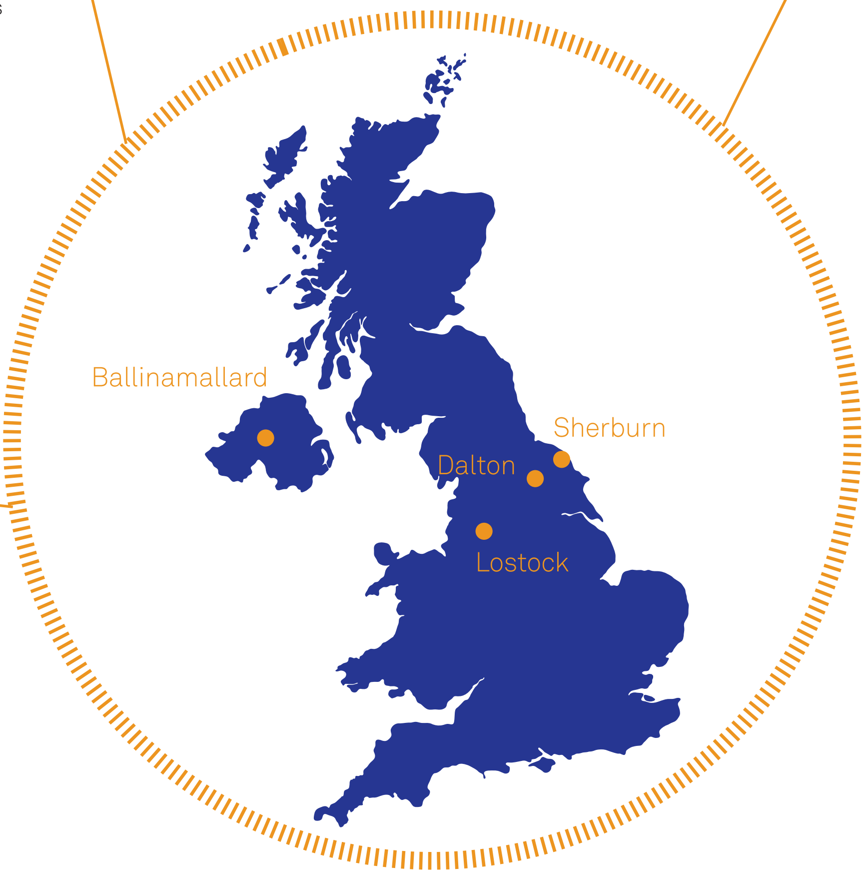
Severfield (NI) Limited

25,000 tonnes per year capacity

c.300 employees

Severfield's base in Northern Ireland has a strong reputation for delivering quality constructional steel products in the UK and Irish structural steel market. It has a 60-year association with the steelwork industry through its background as Fisher Engineering and has contributed to such notable projects as South Bank Tower in London, Dundrum Shopping Centre in Dublin, Odyssey Arena in Belfast and Titanic Signature Building.

The facility provides full-service capabilities and is equipped with the latest state-of-the-art manufacturing processes. The company's highly skilled workforce includes a directly employed site construction team.



Severfield (UK) Limited

The company combines high-volume structural steel production with specialist design and engineering expertise to deliver a complete service to clients from project conception to completion. It has the most extensive product range and capability in the industry and its own highly skilled site construction teams. The company's clients include contractors (Multiplex, BAM, Laing O'Rourke, Sir Robert McAlpine, MACE, Morgan Sindall, Skanska and Balfour Beatty) and developers (Stanhope, Hammerson, British Land, Land Securities and Grosvenor). The company has also developed structures for project owners such as Network Rail, BAA and Sellafield.

Dalton, North Yorkshire

This facility boasts 10 state-of-the-art production lines where modern manufacturing and painting processes are undertaken in a controlled environment. The streamlined, high-volume and efficient nature of this facility is geared for strong repeat business in the structures market.

75,000 tonnes per year capacity

c.450 employees

Lostock, Lancashire

This is one of the UK's largest structural steelwork sites, with a history dating back to 1933. The facility is internationally respected for its advanced design and engineering skills, having had a hand in many iconic and unique constructions. It can also take on more difficult or complex work with the capability of operating in 'challenging' environments such as live railways, airports, public places and city centres.

25,000 tonnes per year capacity

c.300 employees

STRATEGIC REPORT

Strategic report

HOW WE CREATE VALUE

Severfield plc is the UK's market-leading structural steel group, serving the construction and infrastructure markets.

Our customers

Clients serviced by the Group cover a broad range of disciplines from contractors and developers, to engineers and architects.

Why they work with us

The Group's competitive advantage derives from our client focus, experience, scale, integrated approach from design to construction, innovation, cost base, productivity and supply chain strengths.

Our services

We manage every aspect of the fabrication and construction process, from initial scheme design, through detailing, specification and manufacture to the eventual handover to our clients of a quality product on-site.

Design

The design process offers our clients innovative concepts and solutions. We are able to offer 'value engineering' through the close guidance of our consulting engineers at the concept of the project and with the assistance of the latest state-of-the-art computer software for 2-D and 3-D building information modelling ('BIM'), analysis and design.

Our advice on material choices, fabrication, fire protection, surface treatment and construction techniques can often lead to significant project savings and efficiencies.

Our engineers are also involved in temporary works to suit site construction and buildability issues. Working closely with the Group's in-house construction team, we ensure the most efficient and safest solutions for our clients' needs. This expertise is essential for high-rise towers and other complex structures undertaken by the Group.

Fabricate

The Group's fabrication facilities include expansive stockyard areas and in-line cutting, fabrication, welding and painting and some of the largest finished goods and sub-assembly areas in the industry.

Operational investment has been significant and continuous over the years, with many innovative features being developed and incorporated. Modern, state-of-the-art processing equipment has been employed with full consideration for design, supporting layout, logistics, integration and construction. Our equipment is fed with numerical control data which optimises output and minimises waste and errors.

The FABSEC® production line at Dalton is a fully self-contained production facility. The process provides the structural steelwork sector with a full range of highly efficient plated sections, optimal section profiles and shop-applied intumescent coatings.

Resources

The Group can offer great choice, value and flexibility thanks to our national network of factories and the technical expertise of our people. The Group is equipped with the latest state-of-the-art manufacturing and painting processes and has a highly skilled workforce of over 1,300 staff including an in-house construction team. We have the design, experience and engineering skills to serve a diverse range of market sectors. The dedication, expertise and experience of our workforce ensure that we offer more skills and variety than any other UK steel contractor.

Partners

The Group spends a high percentage of its operating costs on goods and subcontractor services. Careful management of the supply chain is essential to drive efficiency and suppliers are monitored to ensure that maximum benefits are delivered to clients and the Group. We engage with clients and the supply chain wherever we operate and long-term relationships are forged with partners who meet our commitment to quality and sustainability.

Sustainable investment

We are continually investing in our business in order to preserve our ability to generate value in the short, medium and long term.

Construct

The Group has its own highly trained construction workforce which provides services for all of its construction requirements. Working closely with the project management team, they are leaders in steel construction and utilise the latest equipment on-site. The Group is an industry leader in construction methodology.

The Group also has a large and highly experienced contract management team. Each contract manager is the single point of contact with each client and is supported by all resources within the Group. Our contract managers engage with our clients and the supply chain to ensure optimum communication and performance in all aspects of the project, including site construction and administration.

Health and safety focus

The well-being and safety of our employees, clients, suppliers and subcontractors are paramount and directly impact on the commercial viability of our business. The directors, through the implementation of our safety, health and environmental philosophy, encourage each employee and subcontractor to strive constantly to adopt the best safety, health and environmental practices.

Value generation

The Group's operational improvement programme, the objective of which is to improve risk assessment and operational and contract management processes, is central to the generation of value.

Our activities generate the following types of value:

Financial

All of the Group's consolidated revenue and profits are generated from the design, fabrication and construction of structural steelwork and its related activities.

Our state-of-the-art manufacturing facilities have been established to generate profit and surplus cash flow. Steel purchases are only made for secured contracts in order to maximise working capital positions. Good cash generation and balance sheet management provide a solid foundation for the Group.

Close management of our contracts and cost base is critical to our success, particularly in winning new contracts, reinvesting in our business and seeking further opportunities for growth.

Customer

We approach every project, from the highly technical to basic structural work, with the same level of safety, professionalism, commitment, care and customer service.

Employee

We are committed to matters of health and safety, sustainability, ethics and staff engagement. We ensure our employees are trained so they are skilled and qualified for their occupation and therefore can contribute to performance.

Society

We are committed to minimising our impact on the national environment and local communities, as well as maintaining sustainable practices in all our disciplines.

HOW SUSTAINABILITY SUPPORTS OUR BUSINESS MODEL

Sustainability underpins our model, from ensuring the health and safety of our employees, clients, suppliers and subcontractors, to minimising our environmental impact.

SMARTER, SAFER, MORE SUSTAINABLE
securing our future

We have a rich heritage and a strong history with decades of experience and a wealth of expertise, however, we operate in a dynamic market and change is a constant. With a solid foundation now in place, we want to focus on maintaining and growing our reputation to build on our market-leading strengths and performance over the longer term.

Smarter, Safer, more Sustainable, our business improvement programme (which was launched during 2017), represents the consolidation of all of the Group's ongoing improvement projects, established to help us in achieving the Group's overall strategy. These include improvements in business processes, use of technology, operating efficiencies and new product development, all set within a framework of strong risk management and control. We believe that by investing in our projects, training and technology to empower our people to work ***Smarter, Safer and more Sustainably***, this will assist us in securing our future as the market leader in structural steel.

We'll develop smarter ways of working that enable us to be more effective and focus on the things that matter. We'll continue to put safety at the forefront of everything we do, making it the core of every decision and process.

SMARTER	SAFER	SUSTAINABLE
Improve how we deliver our projects with speed, efficiency and accuracy.	Continue our relentless focus on safety and always think 'safety first'.	Focus on working sustainably and reducing our energy consumption.
	WHAT WE'LL DO	
Maximise our skill sets – operational excellence, quality and dealing with complexity.	Introduce new technology and equipment that enables safer ways of working.	Invest in technology that reduces our emissions.
	WHAT THIS WILL MEAN FOR US	
Continued development of our expertise and improve our offering to clients.	Safeguard employees, clients and shareholders.	Care for our environment whilst building our external reputation.

Smarter, Safer, more Sustainable will assist us in unlocking the value in our people and will help to keep our order book strong and secure the future for our clients, our shareholders and our employees.

Health and safety

A principal aim of the board is to continue to ensure, through example and encouragement, that we behave ethically and responsibly, particularly in the fields of health, safety and environmental management.

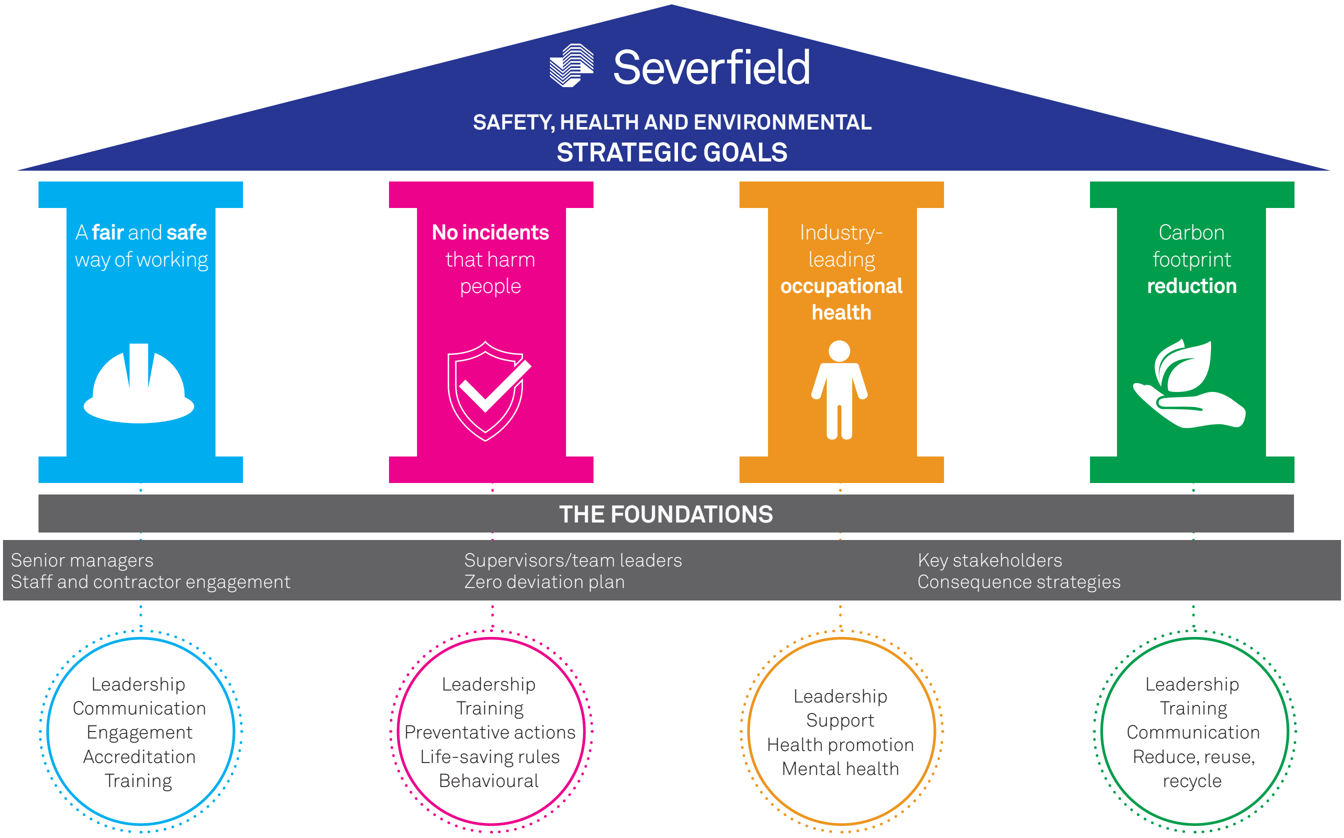
The strategic overview (as below) underpins our health and safety policy and establishes the areas that are essential to achieving our main goal, namely to ensure that all employees enjoy a safe working environment, with no exceptions.

Sustainability

We remain committed to minimising the environmental impact of our business through sustainable practices and continuous improvement of our environmental performance. Significant progress continues to be made in areas such as carbon reduction, strategy (as below), renewable energy and the responsible sourcing of materials.

We have maintained the Carbon Trust Standard for reducing CO_2 emissions year-on-year and continue to be accredited with the Gold Membership Standard of the Steel Construction Stability Charter.

Our continued investment in technology and research will ensure the future growth of the business whilst continuing to drive efficiency and improvements in service, adding value for our customers.



Quality and accreditations

Quality assurance is a fundamental feature across all of our operations. The Group is committed to providing our clients with the best possible service and protecting our workforce wherever we operate. By gaining the necessary certification through recognised bodies, we provide the reassurance that we are properly trained and qualified to carry out our contractual and partnership obligations.

Quality systems (including welding quality systems) approved by the British Constructional Steelwork Association ('BCSA'), Steel Construction Certification Scheme ('SCCS') and The Welding Institute ('TWI'), operate to ensure customer requirements are recognised and delivered. Registration under the Qualified Steelwork Contractors Scheme provides extra confidence to customers.

The CE mark is a claim that a particular construction product can be used within the European Union and is based on the principle that the product is 'fit for purpose'. All of the Group's manufacturing facilities are CE marking compliant and have been independently assessed to meet the requirements of Execution Class 4. Accordingly, our clients can be assured that their steelwork is in compliance with the latest Europe-wide legislation and is manufactured to a level of quality that is second to none.

Innovation

Innovation plays an important role in winning work, building long-term relationships and creating additional value for our stakeholders. The Group's continued expertise in creating innovative solutions at a project level enables our clients to realise their architectural visions. Our unique capability to deliver complex design solutions, our capacity and speed of fabrication and our management of the integrated construction process is what counts to our customers. Joint value engineering, programme certainty, innovative engineering solutions and advanced construction management have long been part of what we do.

THE MARKETS WE SERVE

The Group's strategic focus is to build on our UK market share from construction activities, to enter new market sectors and to widen our geographical spread into Europe and beyond.

UK

Marketplace

In 2016 (calendar year), the UK constructional steelwork market, as measured by the British Constructional Steelwork Association ('BCSA'), is estimated to have increased 4 per cent to 902,000 tonnes (this equates to a market of approximately £1.7 billion). This increase in demand followed an 8 per cent rise in structural steelwork consumption in 2015.

The Group's potential production capability is approximately 150,000 tonnes, which represents *c.* 17 per cent of 2016 UK structural steel production. Its current share of the market is approximately 90,000 tonnes (2015: 85,000 tonnes), resulting in a total UK market share for 2016 of *c.* 10 per cent (2015: *c.* 9 per cent).

The Group's market share has increased during the year which reflects the projects in an order book which reached a six-year high during 2017 and an improved UK market position. The increase in market share has been achieved in accordance with our strict risk mitigation criteria, which includes the ability to decline work where the pricing is not considered economic, where terms and conditions are unacceptable to us or where there is insufficient allowance for risk.

Our sectors

The market sectors targeted by the Group, and their estimated size in tonnes during 2016, are shown below:

Total market tonnage 2016:
902,000 tonnes

	Percentage	Tonnes
Industrial and distribution	48%	431,000
Infrastructure (including bridges)	7%	64,000
Health and education	12%	111,000
Commercial offices	13%	116,000
Power and energy	7%	59,000
Stadia and leisure	3%	28,000
Retail	2%	18,000
Other	8%	75,000

Outlook

Market conditions have remained stable during the year. Although pricing remains competitive, customers are also placing a high premium on quality of service, project delivery and financial (balance sheet) resilience, all areas of strength for the Group. We continue to seek opportunities with clients who recognise the additional value that we bring to the outcome of a project.

After a period of recent strong growth, the market forecast, prepared by the BCSA, is estimated to level out over the next two years before returning to growth again as major infrastructure projects start to move into their delivery phase. These include Hinkley Point Nuclear Power Station, HS2 and the expansion of Heathrow Airport. Our dedicated bridge team and our historical record in transport infrastructure, both railway and airports, should enable us to feel confident about our involvement in these projects. The mix of projects within market sectors will be a key determinant of the Group's outlook. Larger, more complex projects will continue to offer strong opportunities and the Group continues to focus on operating efficiencies to address smaller projects competitively.

UK order book

The Group has a very healthy, well-diversified order book of £229m (June 2017) which represents approximately eight months of forward production capacity.

The order book has decreased since November 2016, which represented the Group's highest position for over six years. This decrease, which was expected, represents the return to more 'normal' order book levels following the awards earlier in the year of certain large contracts, including 22 Bishopsgate.

The contract mix within the order book incorporates a diverse range of projects in commercial offices, industrial, leisure and infrastructure projects. Many of these projects play to our key competencies – large complex projects that require high quality, rapid throughput, on-time performance and full co-ordination between stakeholders.

Pipeline/prospects

The Group continues to monitor the future pipeline of projects currently being tendered. This provides forward visibility of future orders and helps to facilitate production planning. The Group's current pipeline of contract opportunities is encouraging and includes a range of projects in the commercial office, industrial and distribution, transport and power and energy sectors.

Group production

90,000
tonnes

Group potential capacity

150,000
tonnes

Total UK production of structural steelwork

902,000
tonnes

UK order book

£229m

OUR MARKET SECTORS

We have the design skills, engineering skills and experience to handle complex projects over a diverse range of market sectors, whether for work, play, travel or to provide essential infrastructure.

Core infrastructure sectors

Transport ▲

Our expertise includes international airports, road and rail facilities and bridges. Many of the structures we create become famed landmarks in their own right. Services range from design, planning and high-volume steel supply, to fabrication and construction. As a key element of the UK's infrastructure, bridge building requires skill, precision and quality on a large scale. Our growing bridge business has a strong reputation and extensive experience in the successful delivery of all types of bridgework, including major transport routes.

Successes

Multiple contracts with Heathrow Airport, London Bridge, Manchester Victoria and Birmingham New Street stations, Ordsall Chord (link bridge between Manchester's Victoria and Piccadilly stations), Ely Southern Bypass.

Group market share (for infrastructure including bridges)

5-10%

Power and energy ▲

Power stations, sustainable energy facilities and waste processing plants form an important part of our business. Our professionalism, extensive sector experience and ability to meet specific engineering requirements enable us to continue serving these vital sectors in the UK and other parts of the world.

Successes

Essex and Milton Keynes waste treatment plants, Peterborough and Covanta (Dublin) Waste to Energy plants, Port of Liverpool Biomass Terminal, Ferrybridge Power Station.

Group market share

5-10%

Health and education ▲

We have a long history of providing world-class steel solutions for hospitals, which are increasingly being specified with structural steel frames. Key factors giving us an advantage in this sector include span length, enhanced flexibility, adaptability and speed of construction. We have also worked with many education clients and contractors over the years, each project bringing its own specific requirements and challenges.

Successes

Francis Crick Institute, Nigeria Syringe Factory, University of Strathclyde, Victoria & Albert Museum (Dundee), Kings College Hospital, Graphene Innovation Centre.

Group market share

<5%

Key: Global market future trends Upward trend ▲ Downward trend ▼

Core construction sectors

Commercial offices

Through our work in the commercial office sector, we have made a significant impact on the cityscapes of London and other major commercial hubs around the world. We ensure our structural steel methods, products and processes keep up with the needs and challenges of this rapidly evolving sector.

Successes

The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, London Development Project, 22 Bishopsgate.

Group market share

20-30%

Industrial and distribution

The Group is a trusted partner to the industrial, warehousing and distribution industries, thanks to our strong reputation for engineering excellence and versatility. Unrivalled capacity, the ability to meet diverse and rigorous requirements and other strengths such as design capability, supply chain co-ordination and delivery speeds set us apart from our competitors.

Successes

Major contracts for BMW, Unilever, Sports Direct, Ocado, ASDA, Sainsbury's, Prologis, Gazeley, Jaguar Land Rover, Rolls-Royce, Amazon and DHL.

Group market share

10-20%

Stadia and leisure

Stadia and leisure complexes are important sectors for the steelwork industry. The Group has an unrivalled record in the design, engineering and building of many of the UK's best known sporting hubs. We have also provided timely and cost-effective solutions for key leisure destinations, ranging from exhibition and conference centres to state-of-the-art concert arenas.

Successes

Paris Philharmonic Hall, First Direct (Leeds) Arena, Olympic Stadium, Arsenal F.C. (Emirates Stadium), Wimbledon Centre Court (roof) and No.1 Court roof, Liverpool F.C. (redevelopment of Anfield Stadium), Manchester City F.C. (south stand redevelopment), Tottenham Hotspur F.C. (new stadium).

Group market share

40-50%

Retail

Retail developments are becoming increasingly complex and ambitious as towns and cities position themselves as attractive shopping destinations in today's competitive economy. Major redevelopment in cities and out-of-town shopping facilities are challenging projects in their own right, requiring different skills and services. Project management and supply chain linkage are vital to successful project execution.

Successes

Bradford's Westfield Shopping Centre, Hereford Old Livestock Market, Birmingham John Lewis, Bracknell's The Lexicon, Coal Drops Yard and projects for ASDA, Sainsbury's, Tesco, Morrisons and Costco.

Group market share

20-30%

Data centres and other

Data centres are an ever-growing part of the business world. In recent years, they have become increasingly important to businesses of all sizes as they look for cost-effective alternatives to high in-house IT and other costs. With a large proportion of data centres being specified in steel, the Group is well placed to meet the needs of this rapidly expanding sector, and our cost, speed and flexibility have resulted in several key contract awards.

Successes

London Data Centre (Slough), Microsoft (Amsterdam), Telehouse (London) and Amazon (Dublin).

Group market share

5-10%

OUR STRATEGY

Our vision is to be recognised as world-class leaders in structural steel. We will deliver this vision through the Group's strategy, which is supported by a focus on five key elements.

Medium-term target: to double 2016 underlying profit before tax by 2020

Growth · Clients · People · Operational excellence · India

Strategic pillars	Description	Link to KPIs	Link to risks
Growth	Our aim is to capitalise on growth opportunities both in the UK and in overseas markets and to maximise our market share.	1, 2, 3, 5, 6	a, b, c, d, f
Clients	By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.	1, 2, 3, 5, 6	a, b, c, d, f, h
People	Our people are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals.	1, 2, 3, 4, 5, 6, 7	b, c, g, h
Operational excellence	Our emphasis is on delivering high quality projects and reducing costs by driving excellence through our core business processes.	1, 2, 4, 5	a, b, c, d, f, h
India	We continue to believe that the Indian market presents great opportunities for steel fabrication.	2, 5	e

Key performance indicator reference:

1. Underlying operating profit and margin (before JVs and associates)
2. Underlying basic earnings per share ('EPS')
3. Revenue growth
4. Operating cash conversion
5. Return on capital employed ('ROCE')
6. Order book
7. Accident frequency rate ('AFR')

Principal risks reference:

- a Mispricing a contract (at tender)
- b Commercial and market environment
- c Health and safety
- d Supply chain
- e Indian joint venture
- f Information technology ('IT') resilience
- g People
- h Industrial relations

In 2017, the progress that we have made in delivering our strategy, together with how this strategy has been further developed, is set out below:

Growth

Our aim is to capitalise on growth opportunities both in the UK and in overseas markets and to maximise our market share.

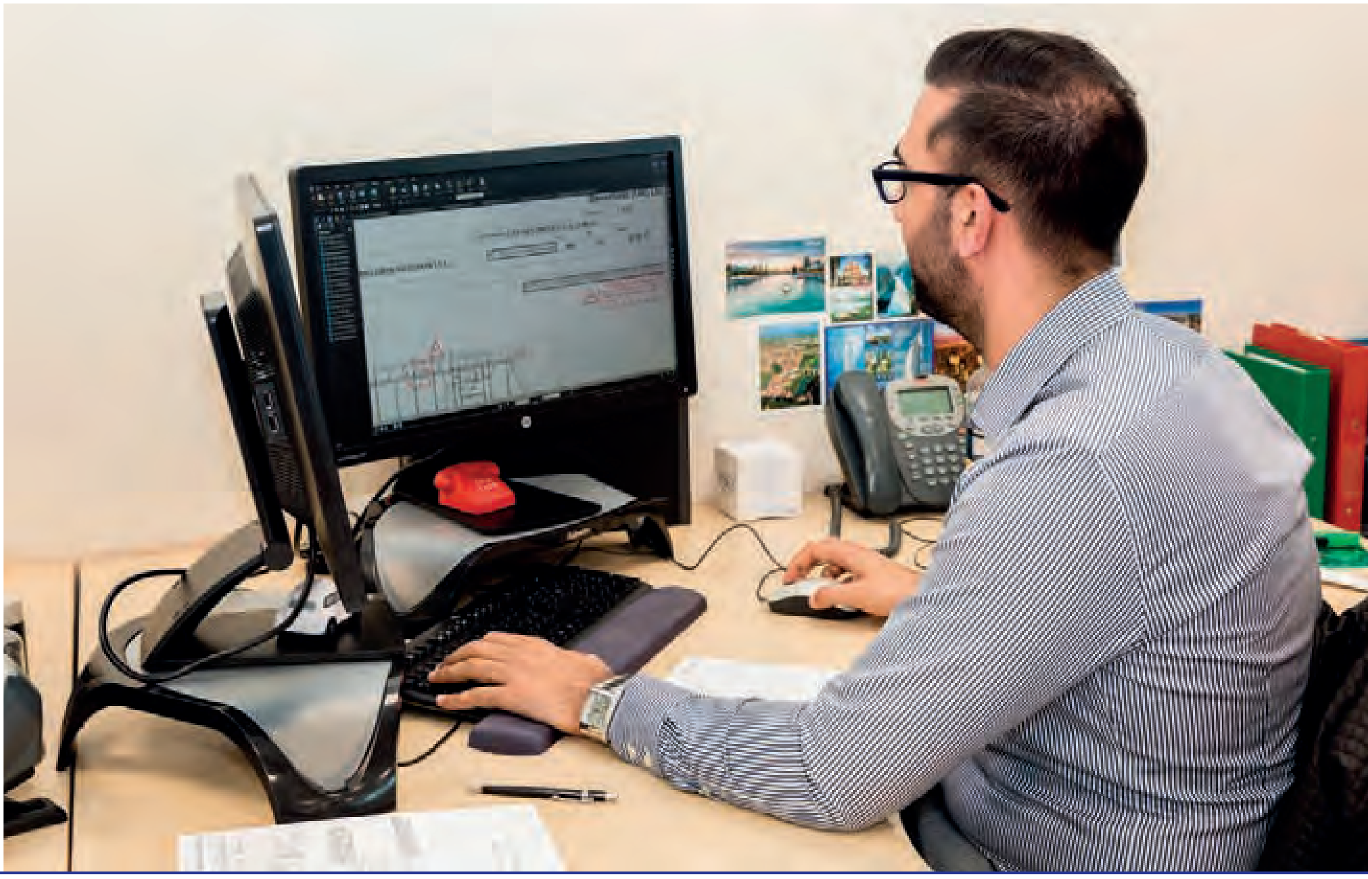
Strategic priorities	Achievements in 2017	Objectives for 2018
Increase UK market share — growing profitable market share in areas where the business already operates. **Enter new UK market sectors** — looking for new market areas where the business has not operated in the past, taking advantage of our existing capacity and capabilities. **Building from existing European opportunities** — driving more opportunities from European contractors with whom we have strong relationships in the UK.	We have grown Group revenue by 10 per cent (following on from 19 per cent revenue growth in the previous year), taking advantage of the Group's market-leading position. We have continued to focus on larger projects within our target markets, playing to our strengths of capability and capacity (delivering projects for 22 Bishopsgate, London Development Project, Tottenham Hotspur F.C. and Wimbledon (No. 1 Court roof)). We have also recognised the opportunity for smaller mid-tier projects where our economies of scale allow us to increase market share profitably. We have fully integrated our bridge team within the Group's operations. We have secured a number of infrastructure opportunities during the year and we are also well advanced in bidding for infrastructure projects such as HS2. Our investment in CMF has provided us with an excellent platform for cold-formed steel products. Having successfully integrated the metal decking supply into our operations, CMF has invested further allowing for the production of purlins and additional cold-formed products. We have employed a European business development director, based in the Netherlands, who will help drive opportunities to extend our capabilities to continental Europe.	To further grow Group revenue and maintain the quality of the order book. Continue to focus on enhancing our position in existing UK markets where the Group already has specialist expertise (at good margins and with acceptable levels of risk). Deliver a full range of projects in UK markets including regional and mid-market opportunities. To continue the development of further cold-formed steel opportunities in CMF. Maintain the targeted approach with key UK infrastructure project owners, to exploit identified growth opportunities (infrastructure and bridge markets). Large infrastructure opportunities for the Group in the medium term include Hinkley Point nuclear power station and the new runway at Heathrow Airport together with the ongoing Network Rail and Highways England investment programmes. Win opportunities in European markets and establish a full service delivery model. Review growth opportunities in the rest of the world.

OUR STRATEGY

Clients

By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.

Strategic priorities	Achievements in 2017	Objectives for 2018
Quality of service — our industry experience allows us to better understand our customers' own strategic objectives and enables us to design, fabricate and construct structural steelwork solutions to support these objectives.	We have continued to develop our relationships with key clients during the year. Our increased emphasis on client engagement has led to regular contact with key clients on market developments and future business opportunities. Our extensive investment in the Group in recent years has allowed us to deliver real benefits to our clients in terms of the reliability and speed of project delivery, coupled with the quality of service we can offer. We have also focused on developing new and strengthening existing relationships with our wider client base to develop our pipeline of opportunities in both existing and adjacent markets.	Client retention is vital to the achievement of our strategic plans and we will continue to ensure that the customer is at the centre of everything we do. We will further focus on opportunities to improve client satisfaction, build on existing client relationships and develop new relationships. Following the appointment of a new European business development director, we plan to develop new European relationships, many of which will extend our UK relationships across international boundaries. We will continue to seek to engage with our clients at an early stage to enhance our understanding of their requirements and to add value throughout the project life cycle.



People

Our people are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals.

Strategic priorities	Achievements in 2017	Objectives for 2018
Develop our people – our aim is to retain and develop the right person at every level and to keep them engaged so that we can deliver our goals and customer commitments whilst maintaining a safe working environment.	We recruited 183 people across the Group, in particular strengthening across a range of disciplines to further improve our commercial and project management procedures. We also made the following key appointments: • Group SHE director • Group head of procurement • Group IT director • Group research and development engineer • Group communications manager • 39 apprentices/trainees We conducted a further Group-wide employee engagement survey. This has enabled us to identify areas in need of improvement and create benchmarks against which to measure our progress since our first survey in 2015. We have strengthened our dedicated health and safety team and our training team during the year to further drive safety improvements and reduce our AFR. We have undertaken a thorough review of internal communications across the Group. This has included further feedback opportunities for our employees, together with more informative communication channels and messages suitable to all audience groups. We developed a training programme on lean production techniques which will lead to many employees developing new skills and achieving new qualifications. We have continued our behavioural safety training and awareness programme, the objective of which is to have a significant and lasting benefit on the Group's safety culture.	We will continue to prioritise investment in our people to ensure a healthy pipeline of talent to achieve our strategic goals. In 2017 we designed the Severfield Development Programme and have launched this in April 2017. This programme will help us build sustainable leadership capability within our next generation of leaders. We will implement an integrated Group-wide HR information system that will enable us to make better people-related decisions across the business. Following the successful scheme in 2015, we will launch a further 'save as you earn' ('SAYE') scheme to provide our employees with an improved choice in the way in which they participate. This will support buy-in to the long-term success of the business and assist in employee retention. We are committed to a target of zero injuries and we will continue to apply the highest standards in health and safety across all operations in order to further improve the Group's AFR.

OUR STRATEGY

Operational excellence

Our emphasis is on delivering high quality, value added projects and reducing costs by driving excellence through our core business processes.

Strategic priorities	Achievements in 2017	Objectives for 2018
Drive operational improvements and efficiencies — the objective of our comprehensive operational improvement programme is to improve the Group's risk assessment, and operational and contract management processes.	We have further improved our underlying* operating margin (before JVs and associates) to 7.5 per cent in 2017. Our profit performance in 2017 (underlying* PBT was £19.8m) keeps us firmly on track to deliver our strategic target of doubling our 2016 underlying PBT by 2020. The 2017 operating profit has benefited from three main aspects of the Group's ongoing business improvement programme: • contract and risk management – ongoing improvements to contract management processes focusing on contract execution, the documentation of project progress and changes, and communication with clients throughout projects; • production process improvement – changes have been made to the production flows of steel through our factories, making better use of new and more efficient equipment and increasing throughput; • CMF – the integration of CMF into our supply chain has had a beneficial impact on operating margins as well as the share of results from joint ventures and associates. Other operational improvements include the roll-out of a new MRP system, reconfiguration of our Lostock facility and increased fabrication throughput at Dalton. These operational improvements were also evidenced in the Group's operating cash flow of £27.4m, which, after net capital expenditure of £5.3m, represents an operating cash conversion of 112 per cent (see note 24 of the consolidated financial statements).	Our target remains to double our underlying PBT from the previous year (2016) by 2020. We will continue to develop our 'smarter, safer, more sustainable' business improvement programme (which was launched in 2017 and covers all of the Group's ongoing improvement initiatives) to enable us to focus further on many aspects of our internal operations to the benefit of Group profitability. We will also continue the roll-out of the MRP system across the Group which will assist in embedding operational efficiencies and improved factory processes. This will also support further improvements to contract and commercial management processes. This improved profitability will continue to generate surplus cash flows and support future dividends, in accordance with the Group's business model.

Operational excellence

Our emphasis is on delivering high quality, value added projects and reducing costs by driving excellence through our core business processes.

Strategic priorities	Achievements in 2017	Objectives for 2018
Invest in market-leading technology — we will make this investment in the short and medium term in order to support the Group's ongoing requirements and for growth.	The Group's improvement programme has included further capital investment in 2017 of £7.0m. This represents further production-related equipment for our fabrication lines in Dalton, new bridge capacity and improved painting and shot blasting capability in Lostock, an extension to the paint shop in Ballinamallard, additional mobile equipment for use on our construction sites and continued investment in a range of health, safety and environmental efficiency-related improvements. This will benefit the Group both now and in the future. In addition, our CMF joint venture has invested in new machinery to enable the production of purlins and additional cold-formed products.	As part of the Group's capital investment programme, we will continue to invest at levels in excess of depreciation. This will include focused capital expenditure to target market opportunities and to maximise the benefits of our information technology programme. We will continue to invest in new state-of-the-art manufacturing technology to help drive production efficiencies, improve our capabilities and product range and to expand the capital equipment base where there is a strong return on investment case. We will continue to upgrade and replace existing equipment where appropriate.

India

We continue to believe that the Indian market presents great opportunities for steel fabrication.

Strategic priorities	Achievements in 2017	Objectives for 2018
Sustainability of India – our aim is to further develop and grow the business whilst the market continues its conversion to steel.	The joint venture has delivered another year of stability, producing a Group share of profit for the first time. The business also generated strong operating margins of 9.7 per cent reflecting an improved mix of higher margin commercial work compared to lower margin industrial work. Our aim for India remains to continue to grow the business and to build value for our shareholders.	We will continue to focus on business development opportunities, particularly with key clients in targeted market sectors. We aim to strike the appropriate balance between commercial and industrial projects to ensure that production continues to remain at satisfactory levels whilst we focus on improving the operating margin. We will also continue to evaluate geographically proximate export opportunities to support the existing order book and pipeline. The rebalancing of its capital structure will position the business well for the next phase of its development.

* The basis for stating results on an underlying basis is set out on page 5.

See **our KPIs** on page 28

Read the **operating performance** on page 30

Read more about **how we manage risk** on page 50

KEY PERFORMANCE INDICATORS

Reference number	KPI	Our performance	Why this is important
1	**Underlying* operating profit and margin (before JVs and associates)**	2017 £19.6m at 7.5% 2016 £13.7m at 5.7% Underlying operating profit (before JVs and associates) has increased by 43%, reflecting increased revenues and an increase in the margin of 1.8%	This is the principal measure used to assess the success of the Group's strategy. We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our investors.
2	**Underlying* basic earnings per share ('EPS')**	2017 5.53p 2016 3.67p EPS growth was 51%	EPS is one of the key metrics in measuring shareholder value and a performance condition of the Group's performance share plan ('PSP'). The measure reflects all aspects of the income statement including the performance of India and the management of the Group's tax rate.
3	**Revenue growth**	2017 £262.2m 2016 £239.4m Revenue has increased by 10% reflecting an increase in order flow, activity and steel prices	This is a key measure for the business to track our overall success in specific contract activity, our progress in increasing our market share and our ability to maintain appropriate pricing levels.
4	**Operating cash conversion**	2017 112% 2016 150% Cash conversion remains comfortably above the 85% target	Cash is critical for providing the financial resources to develop the Group's business and to provide adequate working capital to operate smoothly. This measures how successful we are in converting profit to cash through management of working capital and capital expenditure.
5	**Return on capital employed ('ROCE')**	2017 14.6% 2016 9.7% ROCE has improved by 4.9% and now exceeds the 10% target	ROCE measures the return generated on the capital we have invested in the business and reflects our ability to add shareholder value over the long term. We have an asset-intensive business model and ROCE reflects how productively we deploy those capital resources.
6	**Order book**	2017 £229m 2016 £270m The order book has reduced by 15% since June 2016	The order book is a key part of our focus on building long-term recurring revenue. It is an important measure of our success in winning new work. Whilst the revenue within the order book is reported externally, the margin inherent within the order book is monitored internally to provide visibility of future earnings.
7	**Accident frequency rate ('AFR')**	2017 0.24 2016 0.25 The AFR remains within the Group's target for 2017 of 0.28	This is an industry-standard measure of the safe operation of our business and is one of a number of health and safety measures the Group uses to monitor its activities.

Our KPIs for profitability, AFR and cash flow generation are linked to our performance share plan and annual incentive arrangements to ensure that the remuneration of our directors is aligned with our strategic priorities.

* The basis for stating results on an underlying basis is set out on page 5.

How we calculate	What we target
Underlying operating profit is defined as operating profit before non-underlying items and the results of JVs and associates. Underlying operating margin is calculated as underlying operating profit expressed as a percentage of revenue. See the **consolidated income statement** on page 109	Our target is to double 2016 underlying profit before tax over the next four years (by 2020). Our ongoing aim is to generate steady margin improvement in 2018 and beyond.
EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period. See **note 10 of the consolidated financial statements** on page 126	Our aim is to maximise sustainable EPS growth.
This represents the year-on-year percentage change in revenue from Group operations as reported in the accounts. The effects of acquisitions and disposals will be removed from this measure. No such adjustments were made to the current or prior year revenues.	To grow revenue year-on-year in line with our strategic objectives.
Operating cash conversion is defined as cash generated from operations after net capital expenditure (before interest and tax) expressed as a percentage of underlying operating profit (before JVs and associates). See **note 24 of the consolidated financial statements** on page 140	We target a conversion rate of 85 per cent as a base level of achievement, subject to future capital investment made to position the Group for further growth.
ROCE is calculated as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. See **note 20 of the consolidated financial statements** on page 133	We aim to deliver ROCE which is in excess of 10 per cent over the whole economic cycle.
Our order book shows the total value of future revenue secured by contractual agreements.	We aim to build a good quality order book which supports the achievement of our strategic targets.
AFR is equivalent to one reportable lost-time incident resulting in more than three working days' absence per 100,000 hours worked, which equates to approximately one working lifetime.	We are committed to a target of zero injuries in the medium term.

OUR OPERATING PERFORMANCE

We are well on track with our target to double 2016 underlying profit before tax by 2020.

Alan Dunsmore
Acting chief executive officer

Group overview

The year ended 31 March 2017 has been an excellent year for the Group with benefits coming from strong and good quality order inflow as well as continued improvements in operational performance.

Underlying* profit before tax is up 50 per cent to £19.8m (2016: £13.2m) and revenue has increased by 10 per cent to £262.2m (2016: £239.4m). This performance has converted into cash, with operating cash conversion of 112 per cent (2016: 150 per cent), resulting in net funds at the year-end of £32.6m (2016: £18.7m).

The Indian joint venture delivered another year of stability producing, for the first time, a small profit after tax of £0.2m (2016: loss of £0.3m).

The first full year of Composite Metal Flooring Limited ('CMF') has contributed a Group share of £0.3m profit after tax, which is in addition to the commercial rebates we receive on products used by the Group and that have benefited our operating margin. CMF has integrated well into the Group and is continuing to invest in and develop its product range.

The Group has also exceeded its target ROCE of 10 per cent achieving a good return of 14.6 per cent in the period, bringing the Group more into line with its construction and engineering clients and peers.

The Group has continued to build on the strong commercial and risk management disciplines put in place over the past four years and we maintain our target to double 2016 profit before tax by 2020. Based on the Group's continued progress I am delighted that the board is recommending an increase in the final dividend to 1.6p per share, making a total for the year of 2.3p per share (2016: 1.5p per share) a 53 per cent increase on the prior year.

UK review

Revenue is up 10 per cent over the prior year predominantly reflecting an increase in order flow and activity during the year, together with an increase in steel prices. This year we have worked on four large projects in London that have contributed to this increased activity level. The new roof for Wimbledon No. 1 Court, a major new commercial head office building in London, the new stadium for Tottenham Hotspur

F.C. and a new commercial office tower at 22 Bishopsgate are all projects with revenues in excess of £20m.

Our operating margins have improved again to 7.5 per cent (2016: 5.7 per cent) resulting in an underlying operating profit (before JVs and associates) of £19.6m (2016: £13.7m). We continue to drive improvements to our operational execution, which includes better risk and contract management and developments to our production processes. These improvements have helped the Group deliver a better return on capital following the extensive investment in the business and we are also delivering real benefits for our clients in terms of the reliability and speed of project delivery, coupled with the quality of service we can offer. Operational improvements this year have included the roll-out of a new material requirements planning system across the Group to allow seamless sharing of production and improved project data, reconfiguration of our Lostock facility and increased fabrication throughput at the Dalton facility.

Following on from the success of our operational improvement programme from 2014 to 2017, this year we launched a further programme of projects under the banner 'Smarter, Safer, more Sustainable', which includes improvements to our business processes, use of technology and operating efficiencies. This continuous improvement enhances the robustness of our processes and controls, drives operational efficiency and maximises productivity across the business.

Continued stability in our organisational structure and management team remains a key strength of the business. We continue to drive improvements in our people and processes and, importantly, embed these improvements in our organisational culture. During the year we introduced another two training programmes: one on 'lean' production techniques, which will lead to many of our employees developing new skills and achieving relevant qualifications; the other, an emerging leaders programme to develop and deepen our management talent. In addition to the direct benefits, these programmes strengthen our ability to retain and attract high quality employees. This is also being reinforced through our apprenticeship and graduate recruitment programmes which have accepted 39 and five recruits this year, respectively.

OUR OPERATING PERFORMANCE

Our unique capability to deliver complex design solutions, our capacity and speed of fabrication and our management of the integrated construction process is important for our customers. This year we have delivered very challenging programmes for customers, reduced costs through both our pre-tender value engineering and also post-award engineering solutions, and developed innovative building solutions for temporary works and pre-assembled sections to work in live operating environments.

We have continued to work closely with customers across a broad range of sectors and regions. Our customers have included Multiplex, Sir Robert McAlpine, BAM, Skanska, MACE, Laing O'Rourke, Canary Wharf Contractors, McLaren, Winvic, Costain, Morgan Sindall, Carillion, Stanhope, Buckingham, GSE, Vinci, ISG, Interserve, Bowmer and Kirkland, Hochtief and Westfield. The Group worked on over 110 projects with our clients during the year including:

Major projects – over £20m	Wimbledon (No. 1 Court roof), London Tottenham Hotspur F.C., London London Development Project, London 22 Bishopsgate, London
Commercial offices	Southbank Place, London Principal Place, London BBC, Cardiff King's Cross S2, London
Stadia and leisure	Liverpool F.C. (Anfield stadium), Liverpool
Industrial and distribution	BAE Barrow, Cumbria DHL, East Midlands Nissan, Sunderland Large distribution centre, Tilbury
Transport infrastructure	Ordsall Chord, Manchester London Bridge Station Canopies, London Ardleigh Green Bridge, London
Health and education	Kings College Hospital, London
Power and energy	Covanta, Dublin Gladstone Biomass, Liverpool Dunbar, Scotland Ferrybridge, Yorkshire

Case study

Tottenham Hotspur F.C.

Tottenham Hotspur F.C.'s new stadium at White Hart Lane has been designed with an overall capacity of 61,000 and the south stand, which will be the UK's largest single tier stand, will be able to hold up to 17,000 supporters. The completed stadium will also feature a retractable pitch to enable the staging of NFL games and other events.

Severfield is providing connection design, fabrication and construction of 14,000 tonnes of structural steelwork for this complex project which includes the construction of the main stands, the supply of steelwork for the retractable pitch and its storage enclosure and the steelwork for the Tottenham Experience.

The project also involves the construction and erection of two large steel 'trees', each consisting of 160 tonnes of structural steel, in order to support the back of the south stadium and the supply and installation of the complex cable roof structure. Currently, the majority of construction work has been focused on the new north, east and west stands as these are outside of the footprint of the existing stadium.

This year also saw the first full year of trading from our specialist cold-rolled steel joint venture business, CMF. We are the only hot rolled steel fabricator in the UK to have this cold rolled manufacturing capability, which enables us to internalise a greater share of supply chain margin and develop new products to drive Group revenue and margin.

The remedial bolt replacement works at Leadenhall were completed during the year with the total expenditure being in line with the non-underlying charge made back in 2015. Discussions continue with all stakeholders to determine where the financial liability for the remedial costs should rest.

Our steel supply chain has remained stable during the year. The change of ownership at British Steel, previously TATA, has had no impact on service or capability for our steel sections. Our principal plate sourcing remains in continental Europe but we endeavour to source UK plate from re-rollers including the reopened Liberty facility in Dalzell, Scotland.

Order book and market conditions

Whilst the most recent order book has reduced to £229m, the strong and good quality order inflow during 2017 will continue to support improving performance in the current financial year. Our normal order book levels typically equate to eight to ten months of annualised revenue so whilst, as expected, the order book has come off its peak, it remains at a level which supports good progress towards our strategic targets.

We remain pleased with the order book mix, which incorporates a diverse range of projects in the commercial office, industrial and distribution, and infrastructure sectors. Notwithstanding a reduction in new construction orders over the past few months and the impact of the general election, the UK market generally appears to be remaining stable. We have identified a number of significant projects across the commercial office, retail, industrial and distribution, and infrastructure sectors for the upcoming months. Many of these projects play to the Group's core competencies – large complex projects that require high quality, rapid throughput, on-time performance and full co-ordination between stakeholders.

Although pricing will always be an important factor, and remains competitive, we continue to work with customers who recognise the additional value the Group brings to the outcome of projects. Our operational improvement programme is focused on establishing a cost platform that enables us to deliver high quality, value added services to our customers at market prices whilst maintaining our performance target commitments.

OUR OPERATING PERFORMANCE

Looking further ahead we continue to see a significant increase in infrastructure projects including Hinkley Point nuclear power station, HS2 and the expansion of Heathrow Airport. Our bridge team places us in a strong position for the HS2 bridge work and our historical record in transport infrastructure both in railway stations and airports, and Heathrow in particular, enables us to feel confident about the potential for our involvement in these major projects.

India

Our Indian joint venture, JSSL, has delivered another year of stability and its first profit after tax, of which the Group's share is £0.2m (2016: loss of £0.3m). JSSL generated strong operating margins which this year were 9.7 per cent (2016: 7.0 per cent). This excellent operating performance has been overshadowed by the high cost of financing the joint venture's local debt. Historically, debt servicing costs have offset most of this operating margin, however a post year-end decision, with our partner JSW, to invest additional equity to repay the joint venture's remaining term debt of £10.6m, means that more of this underlying operating profit will contribute to Group earnings in future years. The immediate impact is expected to increase the Group's share of JSSL's profit by £0.5m per annum.

The JSSL order book has increased significantly over recent months and was £73m at 1 June 2017. During the year, the business has continued to generate a good balance between lower margin, more readily available industrial work and higher margin commercial work, which is generally secured from the conversion of projects from concrete to steel. This conversion remains key to the long term growth and value of the business and good progress continues to be made in persuading more clients of the benefits of steel. As in the UK, the business retains a strong focus on securing appropriate terms and conditions for its projects and some initially attractive projects have been declined on this basis.

Overall, we remain confident in the long term development of the market and of the business and this has led to the agreement with our joint venture partner, JSW, to each invest additional equity of £5.3m to help repay the business's outstanding term debt. The Indian government continues to reshape the economy to stimulate investment and these structural changes will support the long term growth of the business.

Business investment

The Group has invested £7.0m in capital expenditure during the year (2016: £5.0m) and received £1.2m from the sale of a non-core property.

The capital expenditure has been invested in a range of projects to improve our in-house painting capability in both Lostock and Ballinamallard, develop our bridge fabrication capability, further enhance our in-house fleet of construction site equipment and improve our staff welfare facilities. We also purchased a plot of land at our Dalton facility, which had previously been leased.

Painting has become an increasingly important part of our business in recent years and the investment in our painting capability will reduce our reliance on external suppliers and importantly, reduce product movement and processing times. We have also been developing our commercial capability in the bridge infrastructure market over the past couple of years, a market we see as increasingly important over the coming years. This investment will greatly enhance the speed and efficiency of our bridge fabrication.

The cash generation of the Group remains strong and we will continue to invest £6m to £7m per annum to support the continued development of our client service offering and our operational improvements and efficiencies.

Safety

The Group's AFR for the year, which includes our Indian joint venture, was 0.24, a slight improvement on the 0.25 recorded last year. This improvement was driven by our UK operations which reduced from 0.44 to 0.42 in the year. Whilst this performance is industry-leading, we are committed to making further improvements and continue to invest significant amounts of time and money in employee safety.

All members of our board participated in site safety visits during the year and we continue to develop the monitoring and analysis of all safety-related incidents, including near misses. We have started implementing the next phase of our behavioural safety programme and increasing our level of focus on mental and physical health-related issues. In light of this, we are supporting the newly established Mates in Mind charitable programme to improve and promote positive mental health in construction.

Strategy

Last year we introduced a target to double 2016 profit before tax to £26m over four years and are making good progress towards achieving this target. The core driver of this is the continuation of the operational improvement programme implemented over the previous three years and we are now capturing these ongoing initiatives under the banner of 'Smarter, Safer, more Sustainable'. There is a wide range of activities aimed at improving business processes, operational efficiency, use of technology and new product development all set within a framework of robust risk management and control. Having established a strong foundation over the past few years from which we and our customers have seen the benefits, we are continuing to work with our customer base to improve our ability to meet their evolving requirements. Joint value engineering, programme certainty, innovative engineering solutions and advanced construction management have long been part of what we do, but we are confident that we will deliver further improvements in these areas as we implement our strategy.

We continue to deliver on our additional strategic objectives. CMF has performed very well for the Group providing in-house supply of cold formed products. There are plans in place to develop the product range of CMF and the business is investing accordingly.

After undertaking a significant amount of research into the potential market opportunity in continental Europe we have employed a European business development director based in the Netherlands, who will focus on tailoring our established UK offering for expansion into this market.

Summary and outlook

The business has had an excellent year with revenue and strong profit growth supported by strong cash generation. Overall, this performance represents a significant step towards our 2020 target of doubling profits. The current order book and pipeline, coupled with a continued stable market environment, will support further progress towards this target in the current financial year.

In India, the strong operational performance, the record order book and the repayment of the high cost local debt makes us confident in the joint venture's future financial contribution to the Group and in its profitable growth potential in this large addressable market.

Finally, I would like to thank all of our people for their continued hard work, innovation and commitment over the last year and we look forward together to another successful year in 2018.

Alan Dunsmore
Acting chief executive officer
14 June 2017

* The basis for stating results on an underlying basis is set out on page 5.

OUR FINANCIAL PERFORMANCE

Excellent profit growth has been supported by strong cash generation.

Adam Semple
Acting Group finance director

	2017	2016
Revenue	£262.2m	£239.4m
Underlying* operating profit (before JVs and associates)	£19.6m	£13.7m
Underlying* operating margin (before JVs and associates)	7.5%	5.7%
Underlying* profit before tax	£19.8m	£13.2m
Underlying* basic earnings per share	5.53p	3.67p
Operating profit (before JVs and associates)	£17.8m	£10.1m
Profit before tax	£18.1m	£9.6m
Basic earnings per share	5.13p	2.89p
Return on capital employed ('ROCE')	14.6%	9.7%

* The basis for stating results on an underlying basis is set out on page 5. The board believes that non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying performance of the Group. Accordingly, adjusted performance measures have been used throughout the annual report to describe the Group's underlying performance.

Trading performance

Revenue for the year of £262.2m represents an increase of £22.8m (10 per cent) compared with the previous year. This is predominantly the result of an increase in production volumes, particularly in the second half of the year, mainly reflecting an order book which continued to grow until November 2016 when it reached a peak of £315m, its highest position for over six years. The Group's order book at 1 June 2017 of £229m represents the expected return to more normal order book levels following the mid-year peak. Historically, our June order book has represented approximately 8 to 10 months of future revenue.

Read our **Group financials** on pages 109 to 145

Read our **Company financials** on pages 147 to 153

Underlying operating profit (before JVs and associates) of £19.6m (2016: £13.7m) represents an increase of £5.9m since the prior year, reflecting an increased underlying operating margin (before JVs and associates) of 7.5 per cent (2016: 5.7 per cent). The operating margin has continued to benefit from the Group's operational improvement programme including ongoing improvements made to our contract management processes, improved flow of fabrication processes in our factories and the integration of our new joint venture, CMF, into our supply chain. CMF has benefited operating margins as well as the share of results from JVs and associates. The statutory operating profit (before JVs and associates), which includes the Group's non-underlying items, was £17.8m (2016: £10.1m).

The share of results of JVs and associates was a profit of £0.5m (2016: loss of £0.2m) and net finance costs were £0.2m (2016: £0.2m).

Underlying profit before tax, which is management's primary measure of Group profitability, was £19.8m (2016: £13.2m). The statutory profit before tax, reflecting both underlying and non-underlying items, was £18.1m (2016: £9.6m).

Share of results of JVs and associates

The Group's share of results from its Indian joint venture was a profit of £0.2m (2016: loss of £0.3m) reflecting another year of relative stability in the business. This is the first time that the Group has recorded a share of profits from the Indian joint venture which represents an operating margin of 9.7 per cent (2016: 7.0 per cent) less the finance expense associated with the debt structure at 31 March 2017.

Our new joint venture, CMF, contributed a Group share of profit of £0.3m (2016: £0.1m). Having successfully integrated the metal decking supply into our operations, CMF has invested further during the year allowing for the production of purlins and additional cold-formed products which will further expand the value offering and profit contribution from the business.

Non-underlying items

Non-underlying items for the year of £1.8m (2016: £3.5m) comprised:

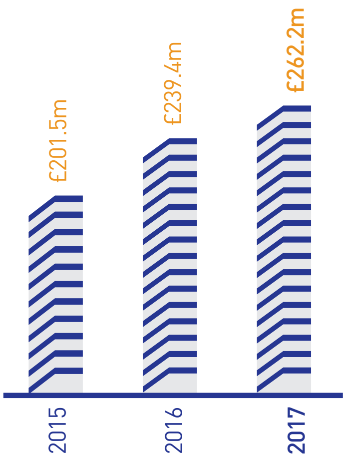
- Amortisation of acquired intangible assets – £2.6m (2016: £2.6m)
- Movement in fair value of derivative financial instruments – gain of £0.8m (2016: loss of £0.9m)

Amortisation of acquired intangible assets represents the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007. These relationships will be fully amortised during the 2018 financial year.

Revenue

£262.2m

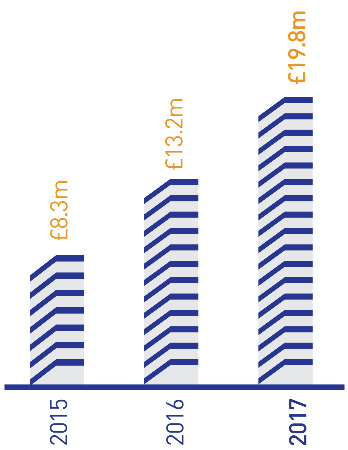
2016: £239.4m



Underlying* profit before tax

£19.8m

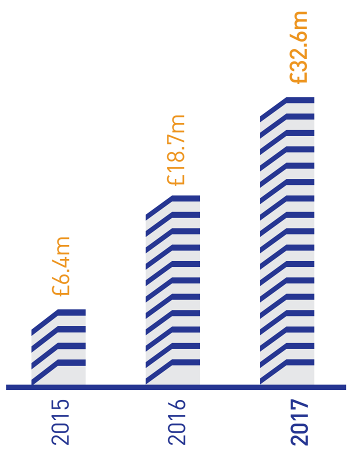
2016: £13.2m



Net funds

£32.6m

2016: £18.7m



OUR FINANCIAL PERFORMANCE

A non-cash profit on derivative financial instruments of £0.8m was recognised in relation to the movement in fair values of foreign exchange contracts, which represents the reversal of derivative liabilities held on the prior year balance sheet on maturity of the underlying contract in the year. The Group has adopted hedge accounting during the year for all material foreign currency hedging positions (cash flow hedges), thereby mitigating the impact of fair value changes in the income statement since, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income.

In 2015, the Group recorded a non-underlying cost of £6.0m associated with the programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. This work is now complete and the actual costs of the programme were consistent with the non-underlying charge. Notwithstanding this, discussions remain ongoing between the Group and the other parties involved to determine where the ultimate liability for the programme costs should reside. Similar to previous years, no account has been taken of possible future cost recoveries from third parties, as these cannot be recognised under IFRS.

Finance costs

Net finance costs in the year were £0.2m (2016: £0.2m). The Group has been in a net funds position for all of the financial year, consequently the finance costs of £0.2m primarily represent non-utilisation fees for the revolving credit facility and the amortisation of capitalised transaction costs associated with the refinancing in 2014.

Taxation

The underlying tax charge of £3.3m (2016: £2.3m) represents an effective tax rate of 17.1 per cent on the applicable profit (which excludes results from JVs and associates). This is consistent with an effective tax rate of 17.0 per cent in the prior year, reflecting an unchanged UK statutory corporation tax rate of 20 per cent over the same period. The Group's effective tax rate is lower than the UK statutory rate, primarily due to the continued recognition of deferred tax assets on losses which arose in prior periods. Almost all of the Group's operations and profits are in the UK, and we maintain an open and constructive working relationship with HMRC.

The total tax charge for the year of £2.7m (2016: £1.0m) reflects the underlying tax charge, offset by deferred tax benefits arising from the amortisation of intangible assets in the year, and also the benefit of the future reduction in UK corporation tax to 17 per cent in 2021 in the deferred tax calculation. These rate changes are categorised as non-underlying and are included in non-underlying items.

Earnings per share

Underlying basic earnings per share increased by 51 per cent to 5.53p (2016: 3.67p) based on the underlying profit after tax of £16.5m (2016: £10.9m) and the weighted average number of shares in issue of 298.9m (2016: 297.5m). Basic earnings per share, which is based on the statutory profit after tax, was 5.13p (2016: 2.89p), this growth reflects the increased profit after tax and non-underlying fair value movements on derivative financial instruments which have moved from a loss in 2016 to a profit in 2017. Diluted earnings per share, including the effect of the Group's performance share plan, was 5.09p (2016: 2.87p).

Dividend and capital structure

The Group has a progressive dividend policy. Funding flexibility is maintained to ensure there are sufficient cash resources to fund the Group's requirements. In this context, the board has established the following clear priorities for the use of cash:

- To support the Group's ongoing operational requirements, and to fund profitable organic growth opportunities where these meet the Group's investment criteria;
- To support steady growth in the core dividend as the Group's profits increase;
- To finance other possible strategic opportunities that meet the Group's investment criteria;
- To return excess cash to shareholders in the most appropriate way, whilst maintaining a good underlying net funds position on the balance sheet.

The board is recommending a final dividend of 1.6p (2016: 1.0p) per share payable on 15 September 2017 to shareholders on the register at the close of business on 18 August 2017. This dividend is not reflected on the balance sheet at 31 March 2017 as it remains subject to shareholder approval. This, together with the Group's interim dividend of 0.7p (2016: 0.5p) per share, will result in a total dividend per share for 2017 of 2.3p (2016: 1.5p).

Shareholders' funds

Shareholders' funds at 31 March 2017 were £154.2m (2016: £148.2m). This equates to a total equity value per share at 31 March 2017 of 52p, compared to 50p at the end of 2016. The increase is primarily due to the increase in profit after tax for the year offset by an increase in the IAS 19 deficit on the Group's defined benefit pension scheme.

Goodwill and intangible assets

Goodwill on the balance sheet is valued at £54.7m (2016: £54.7m) and is subject to an annual impairment review under IFRS. No impairment was required either during the year ended 31 March 2017 or the year ended 31 March 2016.

Other intangible assets on the balance sheet are recorded at £1.6m (2016: £4.5m). This represents the net book value of the remaining intangible assets (customer relationships) identified on the acquisition of Fisher Engineering in 2007, along with certain software assets. Amortisation of £2.9m (2016: £2.8m) was charged in the year.

Capital investment

The Group has property, plant and equipment of £78.9m (2016: £77.4m).

Capital expenditure of £7.0m (2016: £5.0m) represents the continuation of the Group's capital investment programme. This included investment in the painting facilities at Lostock and Ballinamallard, development of our bridge fabrication capability, new equipment for our fabrication lines, additional investment in construction site equipment and improvements to our staff welfare facilities. We also purchased a plot of land at Dalton, which had previously been leased. Depreciation in the year was £3.6m (2016: £3.7m).

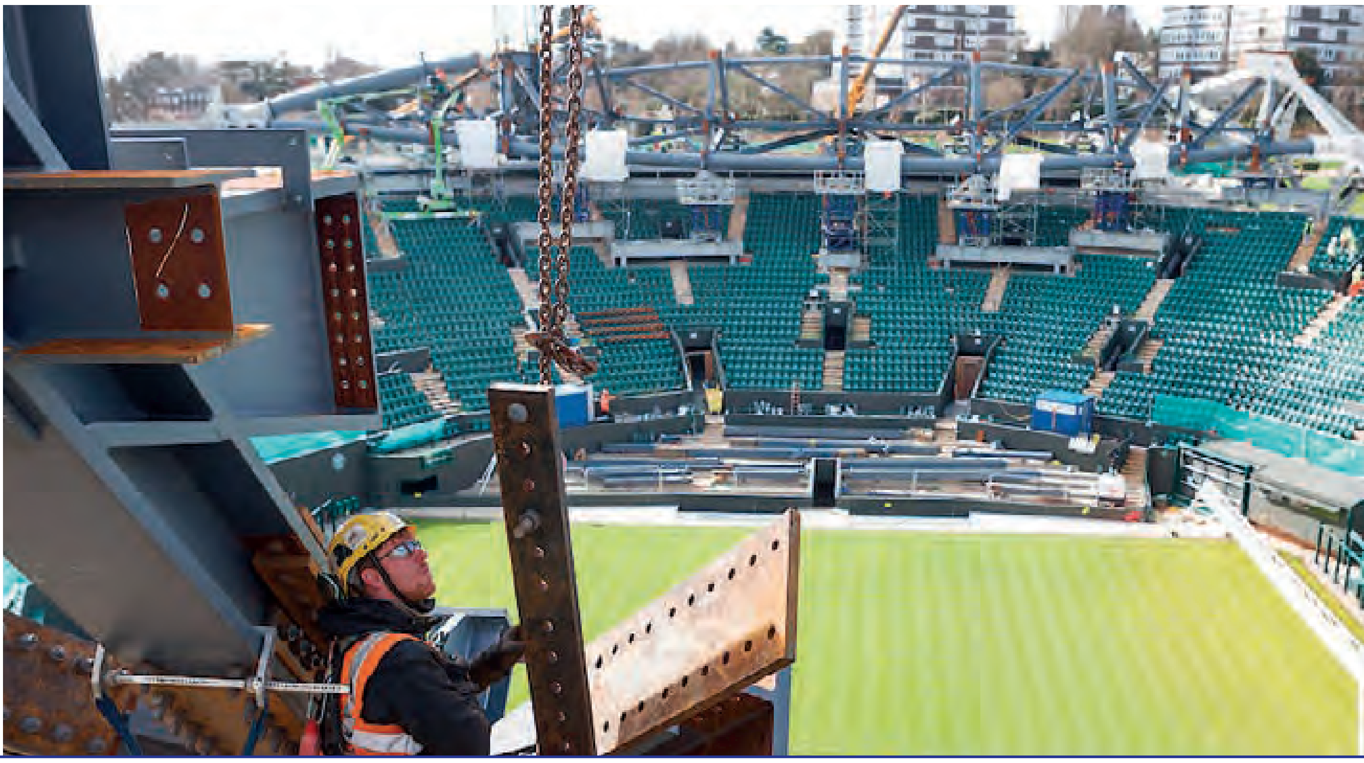
Joint ventures

The carrying value of our investment in joint ventures and associates was £12.1m (2016: £11.6m) which consists of the investment in India of £4.6m (2016: £4.5m) and in CMF Limited of £7.5m (2016: £7.1m).

The Indian joint venture business has continued to repay its term debt with £4.1m repaid during the year, leaving a balance of £10.6m at the year-end. The Group has now agreed with its joint venture partner, JSW, to repay this outstanding term debt which will leave the business with an existing working capital debt of £14.0m, a letter of credit facility and a more balanced capital structure as it enters the next phase of its development. For the Group, this also represents an attractive use of funds considering the differential between interest rates in the UK and India.

Pensions

The Group has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £21.4m (2016: £14.6m). The increase in the liability is primarily the result of a reduction in the AA bond yield following the referendum vote to leave the European Union, as this is used as the discount rate in the calculation of scheme liabilities. The triennial funding valuation of the scheme will be carried out in 2018, with a valuation date of 31 March 2017. All other pension arrangements in the Group are of a defined contribution nature.



OUR FINANCIAL PERFORMANCE

Return on capital employed

The Group adopts ROCE as a KPI to help ensure that its strategy and associated investment decisions recognise the underlying cost of capital of the business. The Group's ROCE is defined as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2017, ROCE was 14.6 per cent (2016: 9.7 per cent) which exceeds the Group's target of 10 per cent through the economic cycle.

Cash flow

	2017	2016
Operating cash flow (before working capital movements)	**£25.1m**	£17.9m
Cash generated from operations	**£27.4m**	£24.8m
Operating cash conversion	**112%**	150%
Net funds	**£32.6m**	£18.7m

The Group has always placed a high priority on cash generation and the active management of working capital. The Group finished the year with net funds of £32.6m (2016: £18.7m).

Operating cash flow for the year before working capital movements was £25.1m (2016: £17.9m). Net working capital improved by £2.3m during the year mainly as a result of an increase in advance payments from customers. Excluding advance payments, year-end net working capital represented approximately two per cent of revenue. This is lower than the four to six per cent range which we have been targeting. Whilst some of this difference can be attributed to a better than normal contract payment profile around the year-end, there has also been some underlying improvement in working capital management.

In 2017, our cash generation KPI shows a conversion of 112 per cent (2016: 150 per cent) of underlying operating profit (before JVs and associates) into operating cash (cash generated from operations less net capital expenditure). This is the third successive year in which cash generation has exceeded 100 per cent and continues the Group's excellent recent record of converting profits into cash.

Net investment during the year was £5.3m reflecting capital expenditure of £7.0m less proceeds from disposals of £1.7m (mainly arising on the sale of a non-core property).

Bank facilities committed until 2019

The Group has a £25m borrowing facility with HSBC and Yorkshire Bank, with an accordion facility of a further £20m available at the Group's request. These facilities are available until July 2019. There are two key financial covenants, with net debt: EBITDA of <2.5x, and interest cover of >4x. The Group operated well within these covenant limits throughout the year ended 31 March 2017.

Treasury

Group treasury activities are managed and controlled centrally. Risks to assets and potential liabilities to customers, employees and the public continue to be insured. The Group maintains its low risk financial management policy by insuring all significant trade debtors.

The treasury function seeks to reduce the Group's exposure to any interest rate, foreign exchange and other financial risks, to ensure that adequate, secure and cost-effective funding arrangements are maintained to finance current and planned future activities and to invest cash assets safely and profitably.

The Group continues to have some exposure to exchange rate fluctuations, currently between sterling and the euro. In order to maintain the projected level of profit budgeted on contracts, foreign exchange contracts are taken out to convert into sterling at the expected date of receipt. The Group has now adopted hedge accounting for the majority of transaction hedging positions, thereby mitigating the impact of market value changes in the income statement.

IFRS 15

The Group is currently undertaking a detailed exercise comparing the current revenue recognition policies against the requirements of IFRS 15, the new revenue accounting standard which becomes effective for the Group's 2019 year-end. This assessment involves identifying the significant areas of difference and quantifying their effect on a sample of different types of contract to ensure that the impact of the new standard is fully understood and acted upon in advance of the effective date. The results of this assessment will drive the Group's choice of transition option.

Adam Semple
Acting Group finance director
14 June 2017

Going concern

In determining whether the Group's annual consolidated financial statements can be prepared on the going concern basis, the directors considered all factors likely to affect its future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities. The following factors were considered as relevant:

- The UK order book, and the pipeline of potential future orders;
- The Group's operational improvement programme which has delivered stronger financial performance and is expected to continue doing so in the 2018 financial year and beyond;
- The Group's net funds position and its bank finance facilities which are committed until 2019, including both the level of those facilities and the covenants attached to them.

Based on the above, and having made appropriate enquiries and reviewed medium-term cash forecasts, the directors consider it reasonable to assume that the Group has adequate resources to continue for at least 12 months from the approval of the financial statements and therefore that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code (the 'Code'), the directors have assessed the Group's viability over a three-year period ending on 31 March 2020. The starting point in making this assessment was the annual strategic planning process. While this process and associated financial projections cover a period of five years, the first three years of the plan are considered to contain all of the key underlying assumptions that will provide the most appropriate information on which to assess the Group's viability.

This assessment also considered:

- The programmes associated with the majority of the Group's most significant construction contracts, the execution period of which is normally less than three years;
- The good visibility of the Group's future revenues for the next three years which is provided by external forecasts for the construction market, market surveys and our own order book and pipeline of opportunities (prospects).

In making their assessment, the directors took account of the Group's strategy, current strong financial position, recent and planned investments, together with the Group's main committed bank facilities. These committed bank facilities mature in July 2019. Notwithstanding the Group's current net funds position of £32.6m, the directors draw attention to the key assumption that there is a reasonable expectation that the facilities will be renewed at the appropriate time and that there will not be a significant reduction in the level of facilities made available to the Group or a significant change in the pricing.

The directors also assessed the potential financial and operational impact of possible scenarios resulting from the crystallisation of one or more of the principal risks described on pages 55 to 59. In particular, the impact of a reduction in margin, a reduction in revenue, a deterioration in working capital, a period of business interruption and a significant one-off event. The range of scenarios tested was considered in detail by the directors, taking account of the probability of occurrence and the effectiveness of likely mitigation actions.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

BUILDING A SUSTAINABLE BUSINESS

The well-being and safety of our employees, clients, suppliers, subcontractors and the general public is paramount and directly impacts on the commercial viability of our business.

People are our most important asset and we believe that everyone has a fundamental right to a safe working environment. It is our duty to respect and foster that right. This is why we take measurable steps to continuously improve our safety practices and processes.

Our board continues to ensure the importance and significance of social, environmental, ethical and health and safety matters for the Group. Our health and safety performance can determine our strength as a business, not in isolation but one that defines our success in all areas of the business.

Thus a comprehensive risk management and internal control process is in place, supported by a corporate social responsibility ('CSR') and sustainability committee.

Severfield

STOP

Stop for a moment
Look at your work area
Anticipate what could go wrong
Manage your work safely

Do the safe thing

Safety, health and environment

As many of our activities remain potentially dangerous we have continued, and will continue, to embed our 'safety first' value within all areas of the business. Thus ensuring safety, health and environment remains a fundamental aspect of the business and everyone's role.

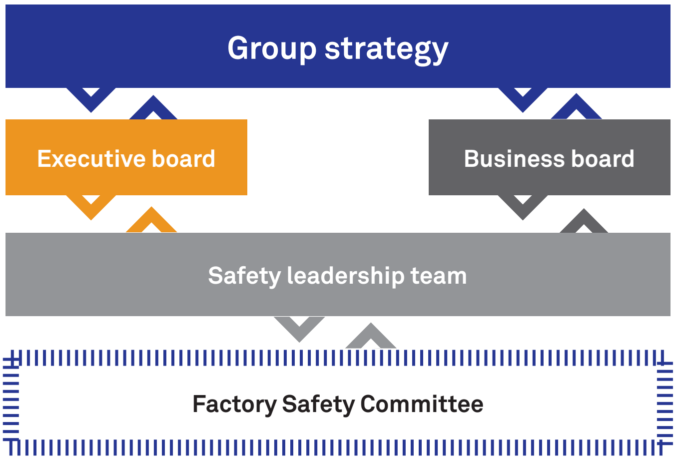
We have not only achieved recurring accreditations to ISO 14001 and 18001 but have also become first in our industry to become accredited to the newly revised ISO 14001 standard.

The current year accident frequency rate ('AFR') of 0.24 includes an AFR of 0.42 for our UK operations. This shows a small improvement compared to the previous year's AFR of 0.44. In 2017, we had 16 RIDDORS compared to 17 RIDDORS in 2016 which is reflected in the lower AFR results. We have analysed underlying trends and will be focusing our efforts on addressing the issues to make further significant improvements in conjunction with a clear strategic approach.

In the current year we have introduced a SHE strategy that both underpins and supports the cultural change within the business and gives clear direction and focus with four strategic goals (pillars):

- A fair and safe way of working
- No incidents that harm people
- Industry-leading occupational health
- Carbon footprint reduction

These strategic goals (see later for further details) will be enablers to continuously improve the culture going forward year-on-year with respect to health, safety and the environment with clear communication and links across all levels of the business (see below).



We have continued to develop and refresh a number of initiatives started in the previous years including near miss reporting, improved communications, directors' site visits and the behavioural safety programme, which has resulted in a clear step change in the SHE culture within the business. This has been visibly communicated during newly introduced safety stand-downs and feedback sessions across the business.

Strategic goals

We will continue to concentrate on improving our AFR performance in 2018 and we believe that our focus on the strategic goals will deliver the performance we desire.

A fair and safe way of working

Leadership, communication and engagement, alongside a robust training programme, will ensure that the safety culture within the business continues to evolve and improve, positively impacting the working environment and reducing the harm to our people.

The format for the directors' tours has been revised from an audit style to an engagement style visit. This ensures interaction and communication across the business at all levels and shows clear commitment and leadership.

The process of recording incidents, tracking actions, reviewing and focusing of topics is being further developed to underpin and support the strategy and thus improve working practices. This will also assist in deeper analysis of where our key issues are within the business.

No incidents that harm people

We have continued to improve the conditions of the yards in all of our factories alongside engaging with our clients to improve site conditions and working areas. Ongoing improvement to material stability is also a continuing project.

We are establishing a new welfare facility at Lostock which will substantially improve the environment for our employees.

Accident and investigation training has been a focus across the disciplines within the year to ensure root causes are clearly identified and actioned to prevent further occurrences. We have extended investigation from accidents to near misses with a high potential for harm to further highlight preventative measures.

Our directors' site tours continued to be fully supported and actioned with 118 being undertaken during the year. These gave our people the opportunity to discuss local issues and make suggestions for improvement.

We have undertaken over 3,000 man-days of SHE training in the year. This includes over 30 different courses. Examples are: NEBOSH certificate; slinger/signaller; first aid; portable magnet use; one-to-one coaching; and reversing vehicles. A mandatory training matrix has also been implemented as part of a KPI target in addition to the development of our apprenticeship programmes with the learning and development team. In 2017, the average number of training days per employee was 2.3 (2016: 1.1).

Industry-leading occupational health

We have continued to proactively assess our occupational health provision and management to mitigate risk to our people and our business. Both a support and prevention model has been in place to support the business going forward.

We will continue to develop our health risk management to ensure it is robust and effectively designed to reduce healthcare costs, increase productivity, reduce absenteeism, enhance employee morale, attract and retain high-quality employees and create a positive return on investment.

The Severfield Foundation (see page 49) has linked with the charity, Prostate Cancer UK, in addition to becoming a member of the Health in Construction Leadership Group and also Mates in Mind which is a charitable programme that aims to raise awareness and understanding of poor mental health in the construction sector.

BUILDING A SUSTAINABLE BUSINESS

Sustainability

Steel is increasingly seen as the most sustainable of the major structural materials. It has various sustainability benefits, such as low waste, flexibility, off-site manufacture, speed, resource efficiency, adaptability, demountability, long lasting appeal, safety, reusability and recyclability. These inherent characteristics result in many social, environmental and economic benefits to satisfy sustainability's 'triple bottom line' and circular economy.

Sustainability committee

In the year we have continued to develop the terms of reference for our sustainability committee. The agreed set of targets and objectives being:

- Carbon reduction policy and strategy embedded in the SHE strategy
- Reduction in carbon intensity by 2021
- Waste reduction and diversion of waste from landfill
- Quarterly GHG reporting using shared database and validation of emissions
- Customer and supply chain engagement
- Staff engagement and internal performance reporting
- Sustainable procurement with accreditation to ISO 6001

We achieved a CDP Sustainability Scoring of B which is above average for the sector.

The recommendations from the previous ESOS report have been implemented which has resulted in a noticeable reduction of our carbon footprint. This has also reduced our climate change levy for the year which is aligned to the Dalton facility.

Further improvements and initiatives are planned to further reduce our environmental impact whilst also reducing costs to the business.

Environmental performance

The Group maintains its environmental management system which is now certified to the revised ISO 14001. Information on our environmental impact is collated monthly and is reported to the board.

All our works and project sites operate in accordance with our sustainability policies. We track our sustainability performance on a project-by-project basis and, where required, report information to our clients.

Greenhouse gas emissions reporting

We have continued to report the Group's GHG emissions in accordance with UK regulations and the GHG Protocol Corporate Accounting and Reporting Standard methodology. Our reporting boundary remains all material Scope 1 and 2 emission sources within the boundaries of our consolidated financial statements. We have also monitored Scope 3 emissions associated with raw materials, waste, water, business travel and product transportation to which we will review the full reporting of Scope 3 for the 2018 financial year.

In 2017, we have again reduced our absolute total Scope 1 and 2 carbon emissions by 1 per cent from the previous year by continuing to focus on energy efficiency across the Group. Our intensity ratio per £m of revenue has also decreased from 45 to 41 which is a further 9 per cent reduction from the previous year. We will continue to review our carbon emissions going forward and assess any reduction programmes which will further reduce our carbon footprint where possible.

For the year ended 31 March 2017, the Group's global GHG emissions were as follows:

	Tonnes of CO_2e	
Emissions from:	**2017**	2016
Scope 1 – combustion of fuel and operation of facilities	**5,231**	4,880
Scope 2 – electricity, heat, steam and cooling purchased for own use	**5,390**	5,853
Total CO_2e emissions	**10,621**	**10,733**

Intensity measurement:	**2017**	2016
Absolute tonnes equivalent CO_2e per £m of revenue	**41**	45

People

People are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals. Our aim is to create a great place to work in order that we can attract, recruit, retain and develop talented people who live and breathe our values at every level of our business to deliver our goals and customer commitments.

Our people strategy comprises five interconnected themes:

- Attract
- Engage and perform
- Develop, grow and lead
- Reward and recognise
- Well-being

Attract

We will attract, recruit and retain the best and brightest talent

Our focus in 2017 has been on attracting, recruiting and retaining the best and brightest talent. During the year, we recruited 183 people across the Group, strengthening across a range of disciplines to further improve our commercial and project management procedures.

We are passionate about helping young people take their first step onto the construction career ladder, from school leavers experiencing the world of work for the first time, to graduates qualified in disciplines relevant to the construction sector. We believe that the recruitment and training of apprentices is fundamental to business development; another means of ensuring that we have all the desired skill bases available in the future.

During 2017, we recruited 39 apprentices/trainees (2016: 27) across the Group, having taken on at least ten apprentices each year since our dedicated apprenticeship programme launched in 2010. We have provided placements for trainee fabricators, steel erectors and other technical trainees and will continue to invest in apprenticeships during 2018 and beyond.

During the year, we recruited five graduates, reiterating our commitment to providing opportunities for undergraduates via work placements across a number of functions including business support, quantity surveying, design engineering, site management and project management.

In 2017 we supported a number of universities, colleges and schools with the provision of guest lectures and attendance at careers fairs. In the next year, we will continue to derive additional value from our strategic partnerships and explore opportunities for action learning, joint projects and secondments and at the same time publicise the benefits of a career within our industry sector.

As well as ensuring that we attract and recruit the best and brightest talent, we must also retain that talent. In 2017, voluntary labour turnover was 7.9 per cent. For 2018, we have targeted a 5.0 per cent reduction in voluntary labour turnover.

Case study

UPS Warehouse, Tilbury

This project is a new 400,000 square foot distribution facility for UPS at London Gateway Logistics Park and constitutes one of UPS's largest infrastructure investments outside of America. It is formed with four individual HUB buildings situated in a unique arrangement to suit the client's operational requirements. Severfield undertook the detailed design and co-ordination of the scheme as well as the fabrication and construction.

The complex roof structure and interfaces between the various HUB buildings provided the main challenge in the design together with the numerous strategically positioned columns to accommodate the vast number of entrances around the building elevations.

Severfield also provided other services and fixtures for the project, including metal decking to the offices and mezzanine and a number of steel stairways.

Full co-ordination with all stakeholders and the careful sequencing of the works were the key to the successful completion of this project.

BUILDING A SUSTAINABLE BUSINESS

Equal opportunities and diversity

We believe that equal opportunity means hiring and retaining the best people, developing them to their full potential and using their talents and resources to the full.

We are an equal opportunities employer and are committed to encouraging diversity and eliminating discrimination in both its role as an employer and as a provider of services. We aim to create a culture that respects and values each other's differences, that promotes dignity, equality and diversity and that encourages individuals to develop and maximise their true potential. We are committed, wherever practicable, to achieving and maintaining a workforce that broadly reflects the communities in which we operate.

Our policy is that recruitment, training, career development and promotion of disabled people should, as far as possible, be identical to that of other applicants and employees. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the Company continues and that appropriate training is arranged where necessary.

During the year we worked with Women in Construction to provide opportunities for women to work on our construction sites and with a number of schools and colleges to encourage underrepresented groups to study STEM subjects.

Diversity will continue to be an area of focus in the year ahead, reflecting its importance to our business and to our clients.

Engage and perform

We will engage, coach and manage our people to give their best every day

In 2017, our employees took part in our employee engagement survey. The survey was undertaken on a divisional basis and we have compared the results to those of our first survey in 2015, providing us with valuable feedback to help us become a better employer.

We plan to undertake a further survey during 2018 and have set a target participation rate of 65 per cent. We will continue to use an external consultant to facilitate the survey and will compare our Group and individual business units against external benchmarks.

As part of our ongoing commitment to increasing employee engagement and following on from our survey, our marketing and communications team have carried out a complete review of internal communications across the Group. This has included further feedback opportunities for our employees, as well as creating and implementing new, more informative internal communications channels and messages suitable to all of our internal audience groups.

In 2016, we launched our first sharesave scheme ('SAYE'), to complement our existing Share Incentive Plans ('SIPs') and a third of our employees took up this opportunity at an average saving of £175 per month. Over 58 per cent of our employees are shareholders via these schemes. We were delighted at this level of participation and recognise this as a clear sign of our people being engaged with our business. We will continue to encourage our people to become shareholders and plan to launch our second SAYE in June 2017.

Develop, grow and lead

We will support our people to achieve excellent performance and continually develop their skills. We will continue to develop strong leaders and managers

In 2017 we continued to use our personal development review ('PDR') process. This process provides a focus on behaviours in line with our values as well as assessment of performance and identification of development needs. In the coming year, we plan to work with our leaders and managers to further develop the PDR process.

We have invested *c.*1.5 per cent of our payroll costs in learning and development activities. The main areas of focus were:

Management development

We identified the need to improve our management capability, particularly within our production teams, and put in place a modular training programme. Additional modules will be developed in 2018 including HR-focused sessions including how to recruit and select to meet our values.

Graduate programme

We launched our ICE-accredited graduate programme which provides graduates from engineering and technical disciplines with the opportunity to work across all areas of our business and gain a broad understanding of the various disciplines. In addition to experiencing a wide range of projects, it enables them to acquire the skill sets required for chartered membership of the ICE. Wherever possible, we also provide our engineering graduates with external secondments to enable them to gain additional skills and experience.

Leadership development

We continued to develop our leadership capability and as part of this programme, we continued to roll out the 360 degree feedback process throughout our director population.

Participants in the process were assessed against our defined leadership characteristics and behaviours aligned with our values by their superiors, team members, customers and peers. This feedback has enabled directors to put together individually tailored development plans against which they are taking action. We will measure the impact of changes in leadership style by repeating the process at an appropriate point and through the 2017 staff engagement survey.

During the year, we held a forum with 25 of our senior leaders within the Group at which we re-enforced our leadership development priorities and focused on what is required to support our future leaders. We will continue to hold these leadership forums in 2018.

Succession and talent management

In order to protect the long-term success of our business we want to ensure that we understand our talent pipeline and support their development so that our people reach their full potential. In 2017 we conducted a full review of key roles within the business and have identified possible medium-term successors for these roles in the vast majority of cases. Action plans have been put in place for these people to ensure that any gaps in knowledge and experience are addressed on a priority basis to meet business needs.

We also took the opportunity to highlight emerging talent across business units to ensure consistency and visibility of talent and career opportunity. Our agility in deploying talent and experience to maximise opportunities through sharing knowledge across the Group is a key differentiator and one which we will continue to develop.

In 2017 we designed the Severfield Development Programme and have launched this in April 2017. This programme is sponsored by Ian Lawson and will provide opportunities for our emerging leaders to further develop their business skills, work across business units and fast track their development.

Reward and recognise

We will reward and recognise people who demonstrate our values and contribute to the achievement of our goals

Each of our businesses offers a competitive reward package and reviews salaries annually in line with market rates. Our focus is on cash and variable pay rather than fixed benefits and each division's reward package includes an annual Group profit performance-related bonus which encourages the achievement of our strategic objectives.

Our people are also eligible to participate in the Severfield plc pension scheme (defined contribution). Employees also have the option to make their own contributions through salary sacrifice. In 2017, we invited employee members of the pension scheme to apply to become employee nominated pension trustees, resulting in the appointment of three new employee trustees. We are working with our trustees to encourage greater engagement of our people in planning for retirement and general financial awareness.

We continue to facilitate a number of flexible benefits that enable our people to access programmes and savings that would not be available to them on an individual basis without additional cost to the Group. These include cycle to work, childcare and discount schemes.

BUILDING A SUSTAINABLE BUSINESS

Severfield is committed to being a living wage employer. All direct employees in the UK are paid above the UK living wage and all our London-based employees are paid in excess of the London living wage.

We recognise and reward the loyalty of our people and in 2017 three staff celebrated 25 years' service.

Well-being

We will promote health and well-being to our people

We recognise that happy and healthy employees are crucial to the achievement of our strategic plans.

In 2017, we reviewed our occupational health provision and highlighted priority areas for promoting the benefits of health to our employees. We provided all employees with the opportunity to access health check appointments; not just those employees that require health surveillance to ensure fitness for safety-critical roles. We also reviewed and refreshed our drug and alcohol policy, including the introduction of random drug and alcohol tests across the Group.

We continue to work with our national charity partner, Prostate Cancer UK, to drive awareness of men's health issues and the benefits of exercise. In the coming year we will put in place a well-being strategy with a focus on raising awareness through a calendar of events throughout the year.

Human rights

We aim to operate in accordance with the Universal Declaration of Human Rights. In addition to this we respect and promote human rights through our employment policies and practices, through our supply chain and through the responsible provision of our products and services. The promotion of human rights through our business activities forms part of our broader objective to be a values-driven organisation.

We are committed to protecting and respecting the human rights of our employees and those who work in our supply chain. As a company operating within the UK, the key human rights issue we face is equality, which we address with training for employees and by promoting a culture of inclusion.

The Modern Slavery Act places a duty on companies to make a public statement on the steps they have taken to minimise the possibility of slavery or human trafficking happening in their own business or in their supply chain.

We believe that this risk can be effectively managed and are making a number of phased improvements to our supply chain pre-qualification and audit processes to make them as robust as possible.

Communities

We are committed to engaging with our communities by supporting local charitable concerns and initiatives. Throughout 2017 the Group has taken part in many activities across the country, including attending careers events, apprenticeship fairs and mentoring of young people. Our site in Dalton hosted an 'Open Doors' event in March where we welcomed over 60 students and young people interested in learning more about our apprenticeship scheme.

Furthermore, we have a number of employees from across the Group that are STEM ambassadors. Their aim is to encourage students to take on, and enjoy, STEM subjects during their time at school and college.

Throughout 2017 Severfield employees have been committed to raising funds for a number of local and national charities, including Children in Need, Sparks, Bolton Hospice, St. Catherine's Hospice (Scarborough), the Yorkshire Air Ambulance, Air Ambulance Northern Ireland, Willowbridge School (NI), Chickenshed, the PPR Foundation (Harrogate) and the Movember Foundation.

The Group also provides sponsorship to local clubs and groups, supporting communities local to each of our sites, as well as spreading thought leadership to our employees, customers, suppliers and potential employees via various initiatives such as industry exhibitions, seminars, project site visits and other events. Our internal communications team shares good news stories and updates on charity events amongst all our employees, as well as encouraging them to get involved themselves.

We are in the process of subscribing to the Prompt Payment Code as we recognise that prompt payment can make a significant difference to our suppliers and subcontractors, boosting their cash flow and allowing them to invest in growth for the future. We believe that we are currently complying with the requirements of the Code.

The Severfield Foundation (the 'Foundation')

One year ago, the Foundation was set up as a registered charitable incorporated organisation, with the aim of raising funds and awareness for charitable bodies throughout the UK. The Foundation is run by its trustees, who are all employees of the Group. Within our first year, we raised over £52,000 through the activities of Severfield and our employees.

Each year, the Foundation supports a 'partner' charity as well as a number of local charities chosen by each Group company (decided by our employees at each location). For 2017 our 'partner' is Prostate Cancer UK, and through this partnership has enabled our employees to secure places at major sporting events such as the London Marathon, the Great North Run and Ride London.

Prostate Cancer UK is hugely relevant as our workforce is predominantly male, and with one in eight men in the UK being diagnosed with prostate cancer at some point in their lives, raising funds and awareness is important for our employees.

Employees are also encouraged to take part in their own fundraising events for charities close to their hearts, and the Foundation supports such activities where possible.

HOW WE MANAGE RISK

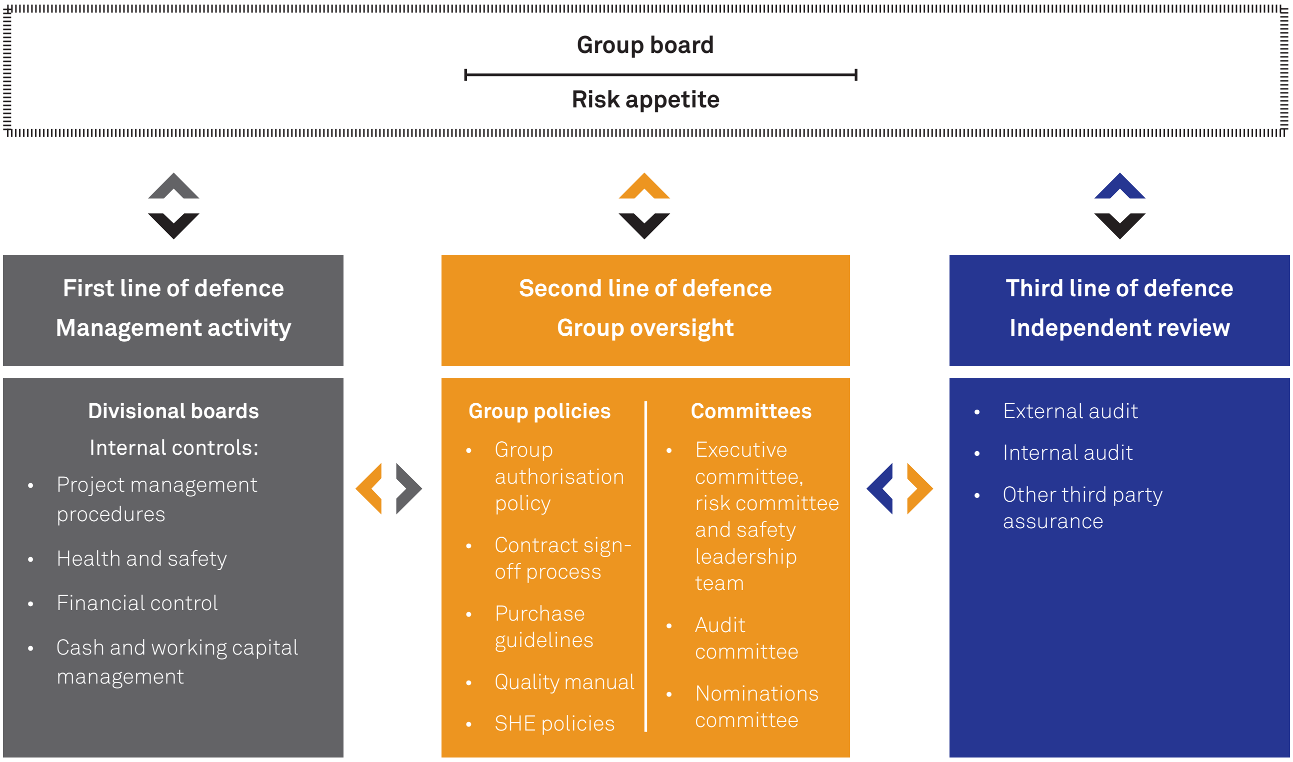
Strong and effective risk management is at the heart of how the directors run the business and supports the achievement of the Group's strategic objectives.

Risk management process

The board has overall responsibility for the Group's risk management and systems of internal control and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group.

The audit committee, on behalf of the board, formally reviews risks and mitigations for the Group and each of the businesses on a biannual basis. The key elements of this risk management process are:

- Senior management from all key disciplines and businesses within the Group continue to be involved in the process of risk assessment and monitoring in order to identify and assess Group objectives, key issues and controls. Further reviews are performed to identify and monitor those risks relevant to the Group as a whole. This process feeds into our assessment of long-term viability and encompasses all aspects of risk, including operational, compliance, financial, strategic, environmental, social and governance ('ESG') issues.
- Identified risk events, their causes and possible consequences are recorded in risk registers. Their likelihood and potential business impact and the control systems that are in place to manage them are analysed and, if required, additional actions are developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing these risks within an agreed timetable.
- The Group establishes its risk appetite through use of delegated authorities so that matters considered higher risk require the approval of senior management or the board. These include, but are not limited to, tender pricing, bid submissions, approval of contract variations and final account settlements, capital requirements, procurement, and certain legal and strategic matters.
- Ongoing risk management and assurance is provided through various monitoring reviews and reporting mechanisms, including the executive risk committee (chaired by the chief executive officer) which convenes on a weekly basis and has the primary responsibility to identify, monitor and control significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from a variety of sources on a regular basis.
- Subsidiary company boards consider and report on risk on a monthly basis as part of the monthly business review process. This process is followed to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.
- On a quarterly basis, the significant risks identified by the Group's businesses are discussed in detail with each management team. In addition, the Group finance director, Group legal director and Group IT director meet on a quarterly basis to review IT risks facing the Group. The outcome of these discussions is collated and reported to the executive committee.
- The risk registers of each business, together with the Group IT risk register, are updated and, together with a consolidated Group risk register compiled by the executive committee, are reported to the audit committee twice yearly, to ensure that adequate information in relation to risk management matters is available to the board and to allow board members the opportunity to challenge and review the risks identified and to consider in detail the various impacts of the risks and the mitigations in place.
- A Group assurance map is used to co-ordinate the various assurance providers within the Group and a compliance framework provides the board with a ready reference tool for monitoring compliance across the Group.



Three lines of defence

The Group manages risk by operating a 'three lines of defence' assurance model (management activity, Group oversight and independent review), which is mapped against the Company's principal risks. This process is summarised in the Group assurance map.

A. First line of defence: management activity

The first line of defence involves senior management implementing and maintaining effective internal controls and risk management procedures. These internal controls cover all areas of the Group's operations. There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives.

The key features of the Group's framework of internal controls are as follows:

Project management procedures — project risk is managed throughout the life of a contract from the tender stage to completion. Individual tenders for projects are subject to detailed review with approvals required at relevant levels and at various stages from commencement of the tender process through to contract award. Tenders above a certain value and those involving an unusually high degree of technical or commercial risk must be approved at a senior level within the Group.

Robust procedures exist to manage the ongoing risks associated with contracts. Regular monthly contract reviews to assess contract performance, covering both financial and operational issues, form an integral part of contract forecasting procedures.

Health and safety — SHE issues and risks are continually monitored at all sites and are reviewed on a monthly basis by senior management and the board. The Group has a well-developed health and safety management system for the internal and external control of health and safety risks which is managed by the Group SHE director. This includes the use of risk management systems for the identification, mitigation and reporting of health and safety management information.

Financial control — the Group maintains a strong system of accounting and financial management controls. Standard financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements.

The Group operates a comprehensive budgeting and forecasting system. Risks are identified and appraised throughout the annual process of preparing budgets. The annual budget and quarterly forecasts are approved by the board.

HOW WE MANAGE RISK

A formal quarterly review of each business's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each business unit with the chief executive officer, Group finance director and chief operating officer in attendance.

Cash and working capital management — cash flow forecasts are regularly prepared to ensure that the Group has adequate funds and resources for the foreseeable future and is in compliance with banking covenants. Each business reports its cash position daily. Actual cash performance is compared to forecast on a weekly basis.

B. Second line of defence: Group oversight

The first line of defence is supported by certain Group policies, functions and committees which, in combination, form the second line of defence.

Group policies — internal controls across financial, operational and compliance systems are provided principally through the requirement to adhere to the Group finance manual, divisional procedures and a number of Group-wide policies (such as the Group authorisation policy, the contract sign-off process, the purchase guidelines, the anti-bribery policy, the Competition Law compliance policy, the quality manual, the health and safety policy and the environmental policy). During the year, we also obtained ISO 27001 accreditation for our information security management system. This will give further assurance as to the Group's resilience to cyber risk.

These policies are supported by statements of compliance from all directors and letters of assurance ('LoA') from the Group's three managing directors. LoAs are required twice yearly, one at 30 September and one at 31 March supported by an internal control questionnaire ('ICQ') which is completed by each business unit and which provides a detailed basis for management to satisfy themselves that they are complying with all key control requirements. The responses in these ICQs are subject to ongoing independent review by PwC, the Group's internal auditor.

The following main committees provide oversight of management activities:

The executive committee, risk committee and safety leadership team — these committees are responsible for the identification, reporting and ongoing management of risks and for the stewardship of the Group's risk management approach.

The audit committee — the board has delegated responsibility to this committee for overseeing the effectiveness of the Group's internal control function and risk management systems.

The nominations committee — this committee ensures that the board has the appropriate balance of skills and knowledge required to assess and address risk and that appropriate succession plans are in place.

C. Third line of defence: independent review

The third line of defence represents independent assurance which is provided mainly by the internal auditor, external auditor and various external consultants and advisers. External consultants and advisers support management and the board through ad hoc consulting activities, as required.

Internal auditor — the audit committee annually reviews and approves the PwC internal audit programme for the year. The committee reviews progress against the plan at each of its meetings, considering the adequacy of audit resource, the results of audit findings and any changes in business circumstances which may require additional audits.

The results of internal audits are reported to the executive team and senior management and, where required, corrective actions are agreed. The results of all audits are summarised for the audit committee along with progress against agreed actions.

Annual review of effectiveness

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the annual report, and are regularly reviewed by the board. The board monitors executive management's action plans to implement improvements in internal controls that have been identified following the processes described above.

The board confirms that it has not identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the board and resulting discussions.

Risk appetite

The level of risk it is considered appropriate to accept in achieving the Group's strategic objectives is reviewed and validated by the board. The appropriateness of the mitigating actions is determined in accordance with the board-approved risk appetite for the relevant area.

The organisation's approach is to minimise exposure to reputational, financial and operational risk, whilst accepting and recognising a risk/reward trade-off in the pursuit of its strategic and commercial objectives. Operating in the construction industry, the reputation of the Group is imperative to its continued success and cannot be risked. Consequently, it has a zero tolerance for risks relating to health and safety. However, management recognises that certain strategic, commercial and investment risks will be required to seize opportunities and deliver growth in line with the Group's strategic objectives.

Changes to principal risks

Although there have been no significant changes since last year's annual report to the list of those risks classified as principal risks, the following amendments are noteworthy:

- **Health and safety** risk (a serious incident causing death or serious injury which could also lead to regulatory intervention, financial loss and reputational loss) has been upgraded from medium to high, notwithstanding the improvement in the Group's AFR over the past year, reflecting the new sentencing guidelines which could impose significant fines for health and safety breaches even in cases not involving fatalities.
- **Tendering and project execution** risk (the failure to achieve targeted profit on major projects) has been renamed as **mispricing a contract (at tender)** (the incorrect pricing of a contract, particularly on complex contracts) and downgraded from high to medium to reflect the improvements made to the Group's contract management processes during the year.

Changes have also been made to the detailed descriptions of mitigation to reflect ongoing activity in the year. In its risk reviews the Group has not identified any significant environmental, social or governance risks to the Group's short and long-term value.

Strategic report approval

The Group's strategic report is set out on pages 14 to 59. The strategic report is approved by the board and signed on its behalf by

Mark Sanderson
Company secretary
14 June 2017

HOW WE MANAGE RISK

The board has carried out a robust assessment of the principal risks and uncertainties which have the potential to impact the Group's profitability and ability to achieve its strategic objectives. These are set out in the table below. This list is not intended to be exhaustive. Additional risks and uncertainties not presently known to management or deemed to be less significant at the date of this report may also have the potential to have an adverse effect on the Group.

Principal risk	Strategic pillars	Link to KPIs	Movement	Scoring
Health and safety		1 2 3 5 6 7		High
Commercial and market environment		1 2 3 4 5 6		Medium
Mispricing a contract (at tender)		1 2 3 4 5 6		Medium
Supply chain		1 2 3 4 5 6		Medium
Indian joint venture		2 5		Medium
Information technology resilience		1 2 4 5		Medium
People		1 2 3 5 6		Medium
Industrial relations		1 2 5		Medium

Key

Growth

Operational excellence

Clients

People

Indian joint venture

Key

1 Underlying operating profit and margin (before JVs and associates)

2 Underlying basic earnings

3 Revenue growth

4 Operating cash conversion

5 Return on capital employed ('ROCE')

6 Order book

7 Accident frequency rate ('AFR')

Scoring

The scoring of each risk as high or medium is determined based on the scoring of the risk within the Group's risk register. This scoring takes into account the potential impact and likelihood associated with the crystallisation of each risk (the assessment of impact takes into account both potential and reputational issues). Only high and medium risks are considered sufficiently significant for disclosure in the annual report.

HOW WE MANAGE RISK

2017 PRINCIPAL RISKS

Health and safety

Description

The Group works on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks. Ineffective management of health and safety issues could lead to a serious injury or death or damage to property or equipment.

Impact

A serious health and safety incident could lead to the potential for legal proceedings, regulatory intervention, project delays, potential loss of reputation and ultimately exclusion from future business. New sentencing guidelines have come into force which have the potential to impose significant fines even where no actual harm has occurred.

Mitigation

- Established safety systems, site visits, safety audits, monitoring and reporting, and detailed health and safety policies and procedures, are in place across the Group.
- Thorough and regular employee training programmes (including behavioural safety training) under the leadership of the new Group SHE director (appointed in July 2016).
- Director-led safety leadership teams established to bring innovative solutions and to engage with all stakeholders to deliver continuous improvement in standards across the business and wider industry.
- Close monitoring of subcontractor safety performance.
- Priority board review of ongoing performance.
- Regular reporting of and investigation and root cause analysis of accidents and near misses.
- Achievement of challenging health and safety performance targets is a key element of management remuneration (and staff remuneration from March 2017 onwards).

Commercial and market environment

Description

Changes in government and client spending or other external factors could lead to programme and contract delays or cancellations, or changes in market growth. Whilst Brexit has to date not had a significant impact on the UK construction market, outcomes following the triggering of Article 50 remain difficult to predict and could affect investor confidence.

Lower than anticipated demand could result in increased competition, tighter margins and the transfer of commercial, technical and financial risk down the supply chain, through more demanding contract terms and longer payment cycles.

Impact

A significant fall in construction activity could adversely impact revenues, profits, ability to recover overheads and cash generation.

Mitigation

- Regular reviews of market trends performed (as part of the Group's annual strategic planning process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively.
- Regular monitoring and reporting of financial performance, orders secured, prospects and the conversion rate of the pipeline of opportunities.
- Selection of opportunities that will provide sustainable margins and repeat business.
- Strategic planning is undertaken to identify and focus on the addressable market (including new overseas and domestic opportunities).
- Recruitment of a new European business development director to focus on markets and opportunities in mainland Europe which fit the Group's risk appetite.
- Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients.
- Close engagement with both customers and suppliers and monitoring of payment cycles.
- Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts.
- Continuing use of credit insurance to minimise impact of customer failure.
- Strong balance sheet (the Group has net funds in excess of £30m) supports the business through fluctuations in the economic conditions for the sector.

Mispricing a contract (at tender)

Description
Failure to accurately estimate and evaluate the contract risks, costs to complete, contract duration and the impact of price increases could result in a contract being mispriced. Execution failure on a high-profile contract could result in reputational damage.

Impact
If a contract is incorrectly priced, particularly on complex contracts, this could lead to loss of profitability, adverse business performance and missed performance targets.

This could also damage relationships with clients and the supply chain.

Mitigation
- Improved contract selectivity (those that are right for the business and which match our risk appetite) has de-risked the order book and reduced the probability of poor contract execution.
- Estimating processes are in place with approvals by appropriate levels of management.
- Tender settlement processes are in place to give senior management regular visibility of major tenders.
- Use of the tender review process to mitigate the impact of rising supply chain costs.
- Work performed under minimum standard terms (to mitigate onerous contract terms) where possible.
- Use of Group authorisation policy to ensure appropriate contract tendering and acceptance.
- Professional indemnity cover is in place to provide further safeguards.

Supply chain

Description
The Group is reliant on certain key supply chain partners for the successful operational delivery of contracts to meet client expectations. The failure of a key supplier or a breakdown in relationships with a key supplier could result in some short-term delay and disruption to the Group's operations. There is also a risk that credit checks undertaken in the past may no longer be valid.

Impact
Interruption of supply or poor performance by a supply chain partner could impact the Group's execution of existing contracts (including the costs of finding a replacement), its ability to bid for future contracts and its reputation, thereby adversely impacting financial performance.

Mitigation
- Initiatives are in place to select supply chain partners that match our expectations in terms of quality, sustainability and commitment to client service. New sources of supply are quality controlled.
- New Group head of procurement appointed to bring in best practice improvement initiatives.
- Strong relationships maintained with key suppliers including a programme of regular meetings and reviews.
- Contingency plans developed to address supplier and subcontractor failure.
- Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements in particular for steel supply.
- Key supplier audits are performed within projects to ensure they are in a position to deliver consistently against requirements.
- Monthly review process to facilitate early warning of issues and subsequent mitigation strategies.

HOW WE MANAGE RISK

Indian joint venture

Description
The growth, management and performance of the business is a key element of the Group's overall performance. Effective management of the joint venture is therefore important to the Group's continuing success.

Crucial to the long-term success of the joint venture is the development of the market for steel (rather than concrete) construction.

Impact
Failure to effectively manage operations in India could lead to financial loss, reputational damage and a drain on cash resources to fund the operations.

Mitigation
- Robust joint venture agreement and strong governance structure is in place.
- Two members of the Group's board of directors are members of the joint venture board.
- Regular formal and informal meetings held with both joint venture management and joint venture partners.
- Contract risk assessment, engagement and execution process now embedded in the joint venture.
- Market and operational plan now implemented; overhead reduction and operational improvement programmes remain ongoing.
- Close monitoring of cash flow and debt repayments.

Information technology resilience

Description
Technology failure, cyber-attack or property damage could lead to IT disruption with resultant loss of data, loss of system functionality and business interruption.

The Group's core IT systems must be managed effectively, to avoid interruptions, keep pace with new technologies and respond to threats to data and security.

Impact
Prolonged or major failure of IT systems could result in business interruption, financial losses, loss of confidential data, negative reputational impact and breaches of regulations. If the Group fails to invest in its IT systems, it will ultimately be unable to meet the future needs of the business and fulfil its strategy.

Mitigation
- IT is the responsibility of a central function which manages the majority of the systems across the Group. Other IT systems are managed locally by experienced IT personnel.
- Significant investments in IT systems are subject to board approval.
- Group IT committee ensures focused strategic development and resolution of issues impacting the Group's technology environment.
- Robust business continuity plans are in place and disaster recovery and penetration testing are undertaken on a systematic basis.
- Data protection and information security policies are in place across the Group, including anti-virus software, off-site and on-site backups, storage area networks, software maintenance agreements and virtualisation of the IT environment.
- Cyber-crimes and associated IT risks are assessed on a continual basis and additional technological safeguards introduced. Cyber-threats and how they manifest themselves are communicated regularly to all employees (including practical guidance on how to respond to perceived risks).
- ISO 27001 accreditation achieved for the Group's information security environment and regular employee engagement undertaken to reinforce key messages.

People

Description

The ability to identify, attract, develop and retain talent is crucial to satisfy the current and future needs of the business. Skills shortages in the construction industry are likely to remain an issue for the foreseeable future and it can become increasingly difficult to recruit capable people and retain key employees, especially those targeted by competitors.

Impact

Loss of key people could adversely impact the Group's existing market position and reputation. Insufficient growth and development of its people and skill sets could adversely affect its ability to deliver its strategic objectives.

A high level of staff turnover or low employee engagement could result in a drop in confidence in the business within the market, customer relationships being lost and an inability to focus on business improvements.

Mitigation

- Remuneration arrangements are regularly reviewed (and benchmarked where possible) to ensure that they are competitive and strike the appropriate balance between short and long-term rewards and incentives.
- Skills gaps are continually identified and actions put in place to bridge these by training, development or external recruitment.
- In 2017 we continued to focus on emerging talent, succession planning and career opportunity and launched our new Severfield Development Programme which will help us build sustainable leadership capability within our next generation of leaders. Other ongoing leadership and management development plans are also in place.
- We undertook a Group-wide employee engagement survey to measure engagement, with the results being analysed and improvements identified and implemented.
- Annual appraisal process provides 360 degree feedback on performance for certain employees.
- Graduate, trainee and apprenticeship schemes are in place to safeguard an inflow of new talent.
- We undertook a thorough review of internal communications across the Group and improvements in this area are planned for 2018.

Industrial relations

Description

The Group (and the industry in general) has a significant number of members who are members of trade unions. Industrial action taken by employees could impact on the ability of the Group to maintain effective levels of production.

Impact

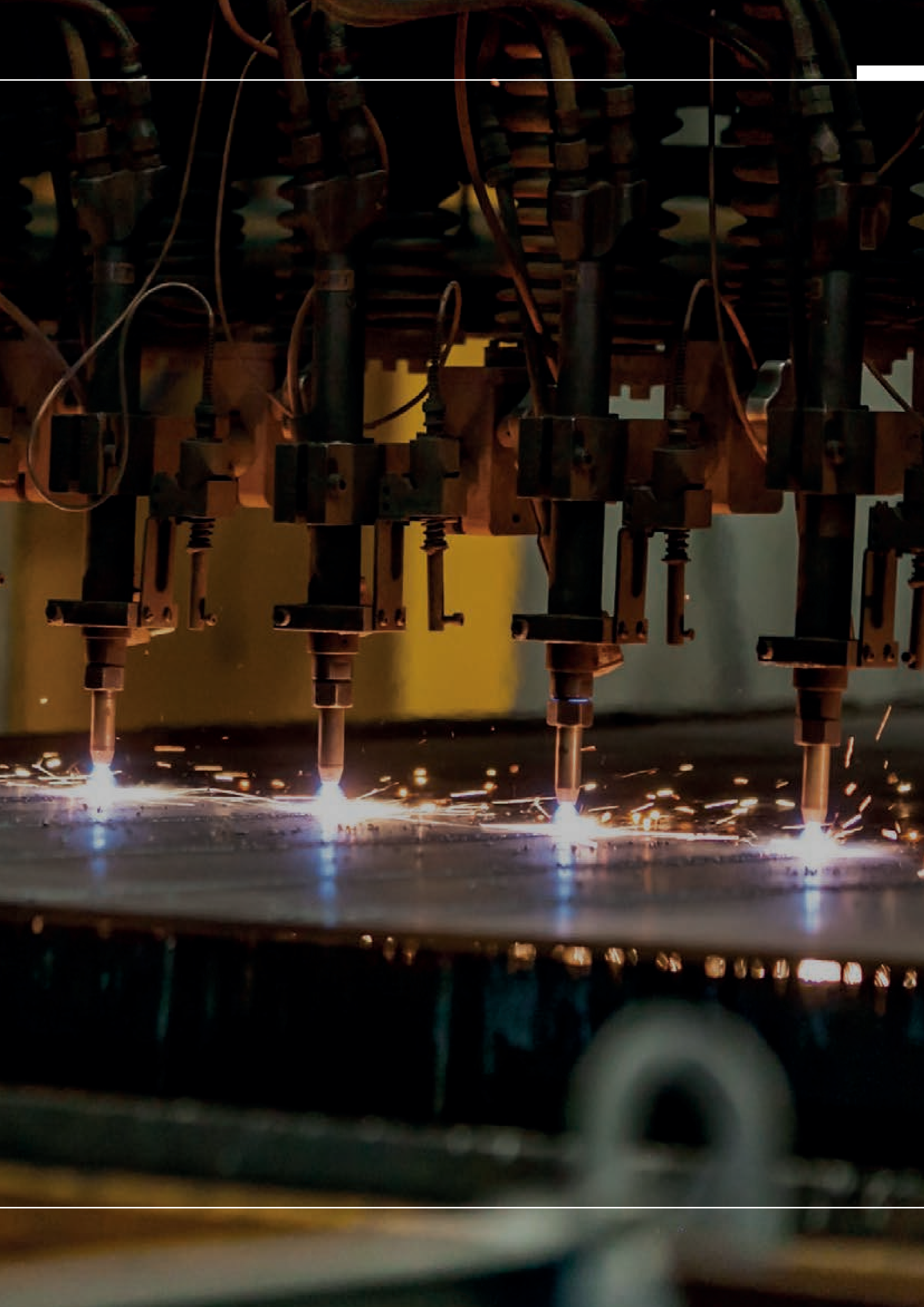
Interruption to production by industrial action could impact both the Group's performance on existing contracts, its ability to bid for future contracts and its reputation, thereby adversely impacting its financial performance.

Mitigation

- Employee and union engagement takes place on a regular basis.
- The Group has four main production facilities so interruption at one facility could to some extent be absorbed by increasing capacity at a sister facility.
- Processes are in place to mitigate disruptions as a result of industrial action.

OUR GOVERNANCE

Our governance



BOARD OF DIRECTORS

John Dodds
Non-executive chairman
(currently executive chairman)

Appointed: 2010 (non-executive director) and 2011 (chairman)

John retired in March 2010 from Kier Group plc, the construction and property services group, after serving for seven years as group chief executive. He worked for Kier, both in the UK and overseas, for nearly 40 years and held a main board position through the employee buy-out process in 1992 and the subsequent flotation of the group on the London Stock Exchange in 1996.

John is non-executive chairman of Lagan Construction Holdings Limited and a non-executive director of Newbury Racecourse plc.

John has been acting as executive chairman since 28 March 2017 on a temporary basis due to the temporary leave of absence of Ian Lawson as chief executive officer on grounds of physical ill health.

Ian Lawson
Chief executive officer
(currently on temporary leave of absence)

Appointed: 2013

Ian was previously a main board director of Kier Group plc, where he enjoyed a 13-year career. He was first appointed to the board of Kier as executive director in 2005 with responsibility initially for its services division and later he also assumed responsibility for the property division. Before joining Kier in 2000, Ian had a successful career at Bickerton Group plc where he was managing director.

Ian, who is a fellow of both The Royal Institute of Chartered Surveyors (FRICS) and the Chartered Institute of Building (FCIOB), has a wide range of skills and experience from working within the construction industry for more than 35 years.

Ian has been, since 28 March 2017, on a temporary leave of absence due to physical ill health.

Alan Dunsmore
Group finance director
(currently acting chief executive officer)

Appointed: 2010

Alan joined the Group from Smiths Group plc. He joined Smiths Group's medical division in 1995, holding various positions throughout the business and from 2004 was director of finance for Smiths Detection.

Prior to joining Smiths, he was with Coopers and Lybrand in Glasgow, where he qualified as a chartered accountant in 1992.

Alan has been acting as chief executive officer since 28 March 2017 on a temporary basis due to the temporary leave of absence of Ian Lawson as chief executive officer on grounds of physical ill health.

Adam Semple, Group financial controller, has been acting as Group finance director on a temporary basis since 28 March 2017. Adam joined the Group in 2013 from Firth Rixson Group, prior to which he was with PwC in both Leeds and London, where he qualified as a chartered accountant in 2002.

Ian Cochrane
Chief operating officer

Appointed: 2013

Ian joined the Group in 2007, following the acquisition of Fisher Engineering. Ian worked at Fisher Engineering for 26 years, starting in the drawing office and progressing to managing director in October 2007. He previously held the position of Group operations director.

Ian has a comprehensive understanding of all aspects of the business and has been involved in many major projects in the UK and Ireland, representing a range of market sectors.

Derek Randall
Executive director and managing director at JSW Severfield Structures

Appointed: 2008

Derek previously held the position of executive director for business development until his appointment in December 2013 as managing director of JSW Severfield Structures Limited (JSSL), our joint venture in India.

Before joining the Group, most of Derek's career was with Corus Group (now Tata Steel) where his last position was as commercial director of the long products division.

Derek has held a number of international board positions with Corus and served on the executive council of the Steel Construction Institute.

Kevin Whiteman
Senior independent director

Appointed: 2014

A chartered engineer, Kevin was chief executive of Kelda Group and Yorkshire Water for a period of eight years. Kevin was non-executive chairman of both companies from 2010 to March 2015.

In 2013 he became chairman of the privately owned NG Bailey. Kevin was previously chief executive officer for the National Rivers Authority, regional director of the Environment Agency, and has held a number of senior positions within British Coal. He was also chairman for Wales and West Gas Networks (UK) Limited, and has been a trustee for WaterAid UK.

Tony Osbaldiston
Non-executive director (chairman of the audit committee)

Appointed: 2014

A chartered accountant having qualified with PwC, Tony was previously finance director of Max Factor UK, Volvo Cars UK, Raymarine plc and FirstGroup plc. He was also deputy group chief executive officer and chief executive officer of FirstGroup America.

Tony has been a non-executive director and chairman of the audit committee of BSS Group plc, and chairman of the remuneration committee of Synstar International plc. He is currently chairman of Encon, the insulation and building products distributor, and also non-executive director and chairman of the audit and risk committee of the Serious Fraud Office.

Alun Griffiths
Non-executive director (chairman of the remuneration committee)

Appointed: 2014

Alun was previously Group HR director and board member at WS Atkins plc, where he enjoyed a 28-year career, having held a number of business management and corporate positions. He is a fellow of the Chartered Institute of Personnel and Development.

Alun is also a non-executive director of the Port of London Authority, Anchor Trust, Ramboll Group and the McLean Group.

Chris Holt
Non-executive director

Appointed: 2011

Chris retired in September 2010 from MJ Gleeson Group plc after serving two years as chief executive officer, prior to which he held the position of group finance director.

Chris's experience also includes 17 years with Foster Wheeler Limited as finance director and deputy chairman of the UK subsidiary company and 12 years with Bechtel Corporation.

Chris is a graduate of Leeds University, a qualified accountant and has an MBA from Golden Gate University, San Francisco.

OUR EXECUTIVE COMMITTEE

1 **Ian Lawson**

Chief executive officer
(currently on temporary leave of absence)

For details see board of directors on page 62

2 **Ian Cochrane**

Chief operating officer

For details see board of directors on page 63

3 **Alan Dunsmore**

Group finance director (currently acting chief executive officer)

For details see board of directors on page 62

Derek Randall (not pictured)

Executive director and managing director at JSW Severfield Structures

For details see board of directors on page 63

Adam Semple (not pictured)

Group financial controller
(currently acting Group finance director)

For details see board of directors on page 62

4 **Gary Wintersgill**

Managing director, Severfield (UK)

Gary joined the Group in November 2014, after 10 years with Kier Group plc, the last three as managing director of Kier northern operations.

As a fellow of the Institution of Civil Engineers ('ICE'), Gary has over 20 years of broad experience within the construction industry. He acts as a supervising civil engineer for the ICE and is also deputy chairman of the Construction Council for Manchester, whose focus is on recruitment of apprentices into the industry.

5 **Jim Martindale**

Managing director, Severfield (Design & Build)

Jim joined Severfield (Design & Build), formerly Atlas Ward Structures, in 1994 as a design engineer. He previously held the positions of engineering manager, design director and deputy managing director, a role that he performed until his current appointment in January 2014.

Jim has been involved in the successful delivery of many major projects throughout the UK during his career with Atlas Ward (which was acquired by the Group in 2005). He is also an associate member of the Institution of Structural Engineers.

6 **Brian Keys**

Managing director, Severfield (NI)

Brian joined Severfield (NI), formerly Fisher Engineering, as production manager in 1986. In 2007, prior to the acquisition of Fisher Engineering by the Group, Brian became production director, a role which he performed until his appointment as managing director in March 2013.

Brian has been involved in the successful delivery of many major projects throughout Ireland and the UK during his career with the Group and Severfield (NI).

7 **Mark Sanderson**

Group legal director and Company secretary

Mark joined the Group in September 2013.

His previous role was as group legal director for the utility specialist, Enterprise plc, until its acquisition by Ferrovial in April 2013. He also worked in private practice as a projects partner, most recently at Walker Morris and prior to that Pinsent Masons.

Mark has over 20 years of experience in the construction and engineering sector.

8 **Martin Kelly**

Group strategic business development director

Martin, who is a chartered accountant, joined the Group in October 2014 from KPMG where he was a director. He enjoyed a 16-year career with KPMG, more recently working as a sector specialist in the firm's advisory department.

Martin also spent two years working with Arup and 10 years as a quantity surveyor which, together with his work at KPMG, provides him with a comprehensive perspective of the construction industry.

9 **Sian Evans**

Group HR director

Sian joined the Group in January 2013.

Her career in human resources started at William Morrison Supermarkets in 1990 and covered a wide range of industry sectors including Ciba Specialty Chemicals, Redcats UK and Callcredit Information Group where she held the position of group HR director.

She is a fellow of the Chartered Institute of Personnel and Development.

10 **Phillipa Recchia**

Group SHE director

Phillipa joined Severfield in July 2016 from housing and regeneration specialist Keepmoat and she has previously worked as corporate head of health and safety at global industries services company KAEFER Group.

Phillipa has over 20 years' experience within the construction industry and a strong background in behavioural safety.

OUR CHAIRMAN'S VIEW ON GOVERNANCE

John Dodds
Executive chairman

Dear shareholder
I am pleased to introduce the Group's corporate governance report on behalf of our board of directors ('the board'). We remain committed to maintaining the high standards of corporate governance which we believe help to facilitate the success of the Group and provide protection for our shareholders.

Our corporate governance report is set out on pages 67 to 72 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code'). Whilst we are currently subject to the provisions of the Code applicable to smaller companies, we seek, where appropriate, to follow those applicable to FTSE 350 companies.

Leadership

On 28 March 2017, following the temporary leave of absence of Ian Lawson due to physical ill health, I agreed to act as executive chairman on an interim basis and am working with Alan Dunsmore, who has assumed the role of chief executive officer on a similar basis. Adam Semple, the Group financial controller, has temporarily taken on the responsibilities of Group finance director.

Accountability

The audit committee discussed the viability statement process performed in the previous year and confirmed that it was appropriate to retain the same process for the 2017 viability statement as required under the Code. A description of the process is set out on page 50 within the risk management section, which also includes our annual confirmations on risk management and internal control (see page 52). The viability statement itself is set out on page 41 within the strategic report.

The committee has reviewed the FRC's Guidance on Audit Committees and the Group's policy for the provision of non-audit services by the external auditor.

The board has confirmed that this annual report is fair, balanced and understandable. The audit committee, supported by management, has adopted a process to enable the board to take this view. You can find an explanation of the process we have used to make this determination in the audit committee report on page 74.

The board delegates certain of its responsibilities to the board committees to enable it to carry out its functions effectively. A diagram of the board governance structure is set out on page 67.

Effectiveness

During the year, an internal board evaluation was undertaken by Kevin Whiteman, the senior independent director. This included an evaluation of my own performance as well as that of individual directors. Overall the evaluation was positive; further details can be found in the corporate governance report on page 70.

Remuneration

Our executive director remuneration arrangements are intended to support the achievement of the Group's objectives and strategy. With the support of the remuneration committee oversight, we continue to believe that the current remuneration packages help to appropriately incentivise management to sustain long-term value for shareholders.

We are due to present our remuneration policy for approval at the AGM in September 2017, as it has been three years since our policy was approved in 2014. The current Performance Share Plan ('PSP') expires in October 2017, accordingly we will also be seeking shareholder approval for a new PSP. Details of the revised remuneration policy and how we intend to operate that policy in 2018, together with a review of the remuneration committee's activities, and bonus and share scheme performance in 2017, can be found in the remuneration report on pages 83 to 100.

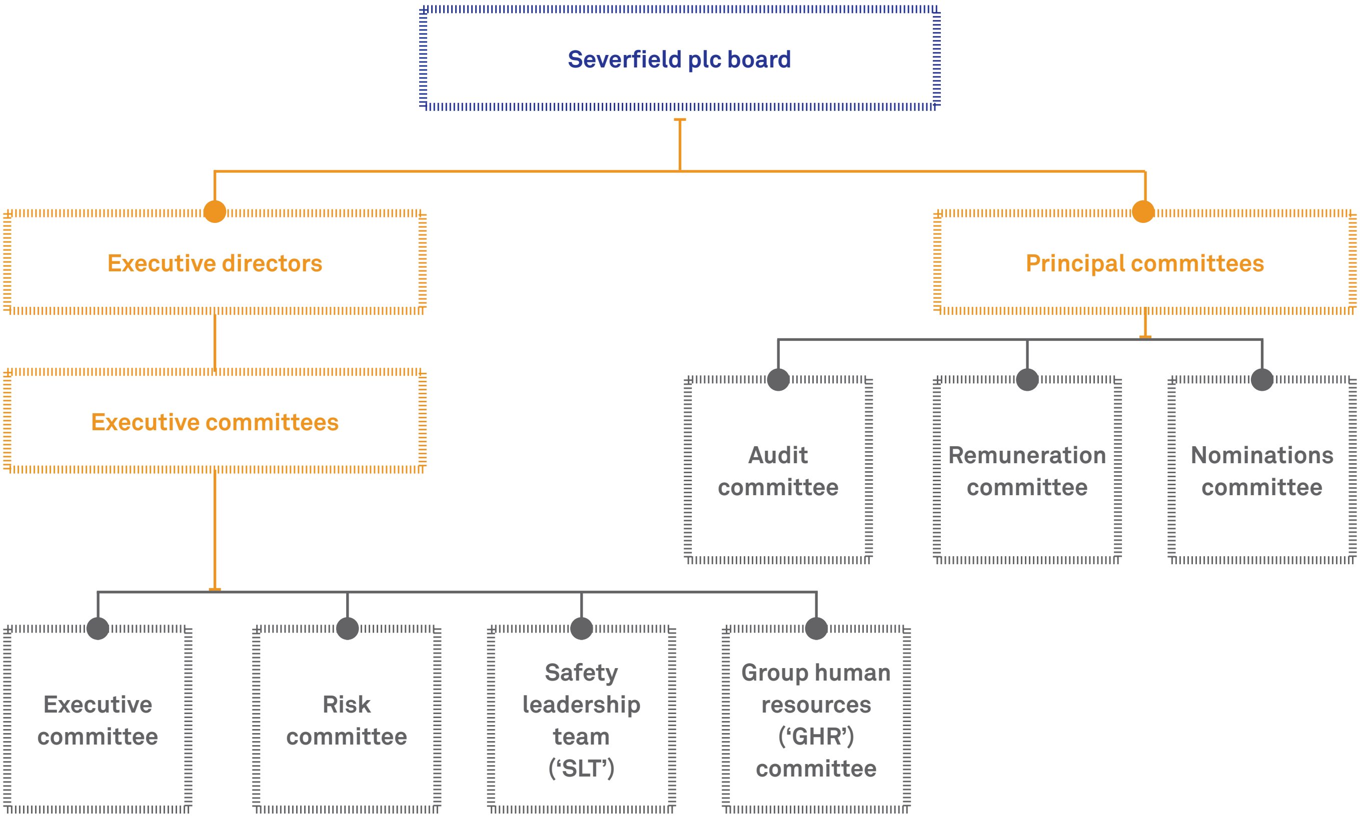
AGM

Our AGM this year will be held at Aldwark Manor Hotel, York, YO61 1UF on 6 September 2017 at 12:00 pm and I look forward to seeing you then.

John Dodds
Executive chairman
14 June 2017

CORPORATE GOVERNANCE REPORT

LEADERSHIP



Compliance with the UK Corporate Governance Code

The board considers that it and the Company have, throughout the year, complied without exception with the provisions of the UK Corporate Governance Code (September 2014), which is the version of the Code which applies to the Company for its 2017 financial year. The Code is issued by the FRC and is available for review on the FRC's website (www.frc.org.uk).

CORPORATE GOVERNANCE REPORT

Structure of the board

The Company is controlled through the board of directors, which consists of the chairman, four other non-executive directors and four executive directors. Four of these directors have been directors of the Company for less than four years. The membership of the board is stated on pages 62 and 63.

Ian Lawson has board-level responsibility for corporate and social responsibility and employment matters; Ian Cochrane has board-level responsibility for health and safety matters.

Role of the chairman, chief executive officer and senior independent director

The board has agreed a clear division of responsibility between the chairman and chief executive officer and their roles and responsibilities are clearly established and set out in writing.

The chairman, John Dodds, is mainly responsible for managing the business of the board, evaluating its performance and setting the agenda for board meetings to ensure that adequate time is allocated to the discussion of all agenda items, facilitating the effective contribution of all directors. The chairman acts as an ambassador for the Company and provides effective communication between the board and its shareholders.

As the senior executive of the Company, Ian Lawson is responsible to the chairman and the board for directing and prioritising the profitable operation and development of the Group. The chief executive officer is responsible for the day-to-day management of the operational activities of the Group, assessing and implementing strategy and implementing the board's decisions.

The chief executive officer chairs an executive committee consisting of the members indicated on pages 64 and 65. This committee assists the main board by focusing on strategic and operational performance matters relating to the business and meets formally on a monthly basis. He also, together with the Group finance director and chief operating officer, holds quarterly meetings with each of the three business unit boards to review all operational issues and meets with an executive risk committee comprising himself, the Group finance director, chief operating officer and the Group legal director on a weekly basis to discuss any key issues affecting the business.

In addition, he chairs a safety leadership team ('SLT') and a Group human resources ('GHR') meeting once a month, both of which consist of certain other members of the executive management team and business unit managing directors.

Kevin Whiteman is the senior independent non-executive director whose role is to provide a sounding board for the chairman and to serve as an alternative source of advice to the chairman for the other non-executive directors. The senior independent director is available to shareholders if they request a meeting or have concerns which contact through the normal channels has failed to resolve, or where such contact is inappropriate. He also leads the performance review of the chairman and the board, taking into account the views of the executive directors.

Since 28 March 2017, as a result of the temporary leave of absence of Ian Lawson on grounds of physical ill health, John Dodds has been acting as executive chairman on a temporary basis, Alan Dunsmore (the Group finance director) as chief executive officer and Adam Semple (the Group financial controller) as Group finance director.

Independence

All of the non-executive directors are considered by the board to be independent in character and judgement and no cross-directorships exist between any of the directors.

At no time during the year ended 31 March 2017 did any director hold a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking other than the executive directors in relation to their service agreements. The directors have put in place procedures to ensure the board collectively, and the directors individually, comply with the disclosure requirements on conflicts of interest set out in the Companies Act 2006. The interests of the directors in the share capital of the Company and its subsidiary undertakings and their interests under the performance share plan and other share schemes are set out in the remuneration report on page 96. Save as disclosed in the directors' remuneration report, none of the directors, or any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries.

Directors to stand for election

The Company's articles of association require the directors to offer themselves for re-election at least once every three years. Notwithstanding this, and in accordance with the recommendations of the Code, the Company's policy is that all of the directors retire at each AGM and may offer themselves for re-election by shareholders. Accordingly, all of the existing directors whose biographies are set out on pages 62 and 63 will be standing for re-election at the 2017 AGM.

The board is satisfied that the performance of all of the non-executive directors continues to be effective and that they continue to show commitment to their respective roles. Non-executive directors are not appointed for a fixed term. The terms and conditions of appointment of non-executive directors will be available for inspection at the AGM.

EFFECTIVENESS

Operation of the board

The board is responsible for providing effective leadership to the Group to create and deliver long-term shareholder value. This includes setting the strategic direction of the Group, reviewing all significant aspects of the Group's activities, overseeing the executive management and reviewing the overall system of internal control and risk management. The board has a formal schedule of matters reserved for it. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks including environmental and health and safety issues. It reviews the Group's strategic direction, codes of conduct, annual budgets, progress towards achievement of those budgets, significant capital expenditure programmes and the annual and half year results.

The board also considers employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. Other specific responsibilities are delegated to the board's committees described below.

The chairman, together with the Company secretary, ensures that the directors receive clear information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested to ensure clarity of informed debate. The board papers contain the chief executive officer's written report, the Group finance director's and chief operating officer's written reports, high-level papers on each business area, key metrics and specific papers relating to agenda items. The board papers are accompanied by a management information pack containing detailed financial and other supporting information. The board receives occasional ad hoc papers on matters of particular relevance or importance. The board also receives presentations from various business units.

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2017 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	**11**	**4**	**4**	**2**
Executive directors				
Ian Lawson	10/11*	—	—	—
Ian Cochrane	10/11†	—	—	—
Alan Dunsmore	11/11	—	—	—
Derek Randall	11/11	—	—	—
Non-executive directors				
John Dodds	11/11	4/4	4/4	2/2
Kevin Whiteman	10/11‡	4/4	4/4	2/2
Tony Osbaldiston	10/11¶	4/4	4/4	2/2
Alun Griffiths	11/11	4/4	4/4	2/2
Chris Holt	11/11	4/4	4/4	2/2

* Ian Lawson was unable to attend the board meeting on 28 March 2017 due to physical ill health.
† Ian Cochrane was unable to attend the board meeting on 21 November 2016 due to a bereavement.
‡ Kevin Whiteman was unable to attend the board meeting on 20 July 2016 due to a conflicting commitment.
¶ Tony Osbaldiston was unable to attend the board meeting on 14 June 2016 due to illness.

CORPORATE GOVERNANCE REPORT

Board meetings are held primarily at the Group's head office in Dalton, North Yorkshire but also at various locations in London, and at the offices of the Group's other operating subsidiaries to provide non-executive directors the opportunity to increase their knowledge and understanding of the Group's operations.

Board evaluation

The board considers that the balance of relevant experience amongst the various board members enables the board to exercise effective leadership and control of the Group. It also ensures that the decision-making process cannot be dominated by any individual or small group of individuals.

The Code attaches importance to boards having processes for individual and collective performance evaluation. The performance of individual directors is evaluated annually in conjunction with the remuneration review. The chairman meets with the non-executive directors at least annually to review their performance.

During the year, the board asked Kevin Whiteman, the senior independent director, to undertake a formal evaluation of board effectiveness. This process was undertaken using a questionnaire which was completed by all members of the board and focused on the performance of the chairman and overall cohesiveness of the board. The key points arising from the evaluation were documented and discussed with the chairman.

Consideration was given to undertaking an externally facilitated review but it was decided that such an approach would not be beneficial in the current year. A further evaluation of the board will be undertaken during the year ending 31 March 2018.

Professional development

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. This is supplemented with visits to the Group's operations and meetings with senior business unit management to develop each director's understanding of the business.

Training and updating in relation to the business of the Group and the legal and regulatory responsibilities of directors was provided throughout the year by a variety of means to board members including presentations by executives, visits to business operations and circulation of briefing materials. Individual directors are also expected to take responsibility for identifying their training needs and to ensure they are adequately informed about the Group and their responsibilities as a director. Particular attention was paid to the new Market Abuse Regulation and ensuring all directors were aware of its implications and their duties.

Non-executive directors are continually updated on the Group's business, its markets, social responsibility matters, changes to the legal and governance environment and other changes impacting the Group. During the year, the directors received updates on various best practice, regulatory and legislative developments.

All directors have access to the advice and services of the Group legal director and Company secretary who ensures that board processes are followed and good corporate governance standards are maintained. Any director who considers it necessary or appropriate may take independent professional advice in furtherance of their duties at the Company's expense. No directors sought such advice in the year.

The board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

Board committees

The board has established three standing committees, all of which operate within defined terms of reference, which are available from the Company secretary by request and will be available for inspection at the AGM.

The committees established are the audit committee, the remuneration committee and the nominations committee. Trading companies are managed by separate boards of directors. Any matters of a material nature concerning the trading companies are reported to the board on a monthly basis.

Details of the work of the audit, nominations and remuneration committees are set out on pages 73 to 100.

Board meetings for the current year

During the financial year the board discussed and implemented the following key actions:

April 2016
- Presentation by Group HR director on learning and development initiatives, succession planning and the results of the staff engagement survey
- Strategic review undertaken and three-year strategic plan approved
- Reviewed the statement of compliance in accordance with the Modern Slavery Act

May 2016
- Presentation by the Company's stockbrokers, Jefferies International

June 2016
- Reviewed and approved annual report and accounts
- Approved final dividend
- Assessed going concern and longer-term viability of the Group
- Presentation on the new Tottenham Hotspur F.C. project

July 2016
- Reviewed feedback pack from investor roadshow
- Approved new processes for compliance with the Market Abuse Regulation

September 2016 (two meetings)
- Presentation by new Group SHE director on future SHE initiatives
- Update on staff engagement survey from Group HR director
- Reviewed annual statements of compliance from directors and approved conflicts of interest

November 2016 (two meetings)
- Board site safety visit to the Dalton factory to witness recent SHE improvements
- Reviewed and approved half year results
- Approved interim dividend

January 2017
- Presentation by, and board visit to the Lostock factory with Severfield UK's production director
- Presentation by the Company's stockbrokers, Jefferies International
- Reviewed interim results roadshow investor feedback
- Agreed scope and content of board and chairman evaluation

February 2017
- Presentations on latest market developments and on the 22 Bishopsgate project
- Reviewed board and chairman evaluation results

March 2017
- Agreed temporary arrangements necessary as a result of Ian Lawson's absence

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY

Financial and business reporting

The financial statements contain an explanation of the directors' responsibilities in preparing the annual report and the financial statements (pages 109 to 153) and a statement by the auditor concerning their responsibilities (pages 104 to 108). The directors also report that the business is a going concern (page 80) and detail how the Group generates and preserves value over the longer term (the business model) and the Group's strategy for delivering its objectives in the strategic report (pages 14 to 27). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 41).

Annual report

The board is responsible for the preparation of the annual report and the financial statements to ensure that the annual report taken as a whole is fair, balanced and understandable.

The annual report is drafted by executive management with reviews undertaken by third-party advisers as required. Additional steps have been built into the reporting timetable to ensure that directors are given sufficient time to review, consider and comment on the annual report. Our external auditor reviews the narrative sections of the annual report to identify any material inconsistencies between their knowledge acquired during the audit and the directors' 'fair, balanced and understandable' statement and whether the annual report appropriately discloses those matters that they have communicated to the audit committee. A substantially final draft is reviewed by the audit committee prior to approval by the board.

REMUNERATION

The directors' remuneration report is on pages 81 to 100. It sets out the activities of the committee, the levels and components of remuneration and refers to the development of the remuneration policy.

RELATIONS WITH SHAREHOLDERS

The Company encourages two-way communication with both its institutional and private investors and attempts to respond quickly to all queries received verbally or in writing.

The executive directors undertake a programme of regular communication with institutional shareholders and with analysts covering the Group's activities, its performance and strategy. Ian Lawson and Alan Dunsmore attended several meetings with institutional shareholders, private investors and analysts during the year, at the time of the announcements of the Group's annual and half year results, during visits to the Group's head office in North Yorkshire and on an ad hoc basis as required. Feedback from those meetings was reported to the board, including the non-executive directors.

The board has sought to use the AGM to communicate with private investors and encourages their participation. The notice of the AGM, detailing all proposed resolutions, is posted to shareholders at least 20 working days before the meeting.

AUDIT COMMITTEE REPORT

Tony Osbaldiston
Chairman of the audit committee

"The audit committee reviews and reports to the board on the Group's financial reporting, internal control and risk management systems and the independence and effectiveness of the auditors."

Members

Tony Osbaldiston (chairman)
Kevin Whiteman
Alun Griffiths
Chris Holt
John Dodds

All committee members during the year were independent non-executive directors in accordance with the Code. The members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the committee's duties; Tony Osbaldiston and Chris Holt are chartered accountants.

By invitation, there were a number of other regular attendees including the Group finance director, Group financial controller and the internal and external auditors. The chief executive officer and the Group legal director and Company secretary also attended each meeting by invitation.

Meetings are held at least three times per annum and additional meetings may be requested by the external auditor. The committee met on four occasions during the year.

Role

The primary function of the committee is to assist the board in fulfilling its oversight responsibilities. This includes reviewing the financial reports and other financial information before publication. The committee assists the board in achieving its obligations under the Code in areas of risk management and internal control, focusing particularly on areas of compliance with legal requirements, accounting standards and the Listing Rules (Listing Authority Rules for companies listed on the London Stock Exchange), and ensuring that an effective system of internal financial and non-financial controls is maintained.

The committee also reviews the accounting and financial reporting processes, along with reviewing the roles of and effectiveness of the external auditor. The ultimate responsibility for reviewing and approving the annual report remains with the board.

The responsibility of the committee principally falls into the following areas:

- To monitor the integrity of the financial statements and formal announcements and to review significant financial reporting judgements.
- To review the Group's internal financial and non-financial controls and risk management.
- To make recommendations to the board in relation to the appointment and removal of the external auditor and to approve its remuneration and its terms of engagement.
- To review the nature of non-audit services supplied and non-audit fees relative to the audit fee.
- To provide independent oversight over the external audit process through agreeing the suitability of the scope and approach of the external auditor's work, assessing its objectivity in undertaking its work and monitoring its independence taking into account relevant UK professional regulatory requirements and the auditor's period in office and compensation.
- To oversee the effectiveness of the internal audit process.
- To oversee the effectiveness of the external audit process particularly with regard to the quality and cost-effectiveness of the auditor's work.
- To report to the board how it has discharged its responsibilities.

AUDIT COMMITTEE REPORT

Activities of the committee

- Reviewed the interim results for the period ended 30 September 2016 and the year-end results for the period ended 31 March 2017.
- Reviewed the significant management judgements reflected in the Group's results including significant contract judgements, the carrying value of goodwill and the investment in the Indian joint venture.
- Discussed the report received from the external auditor regarding the audit of the results for the year ended 31 March 2017. This report included the key accounting considerations and judgements reflected in the Group's year-end results, comments on findings on internal control and a statement on independence and objectivity.
- Reviewed and agreed significant accounting risks and principal business risks for the year ended 31 March 2017.
- Reviewed the Group's risk register.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 31 March 2017.
- Reviewed the measures taken by management to monitor and review the effectiveness of the Group's internal control and risk management processes, to enable the board to make its annual review of effectiveness.
- Reviewed the long-term viability statement and the process undertaken by executive management to enable the board to make the viability statement.
- Reviewed management's paper on the impact of IFRS 15, the new revenue accounting standard that becomes effective for the Group in 2019.
- Considered the effectiveness of the external auditor, KPMG LLP ('KPMG'), their independence and reappointment for the year ending 31 March 2018.
- Reviewed PwC LLP's ('PwC') internal audit reports covering various aspects of the Group's operations, controls and processes and approved the internal audit plan.
- Reviewed the Group's policy for the provision of non-audit services by the external auditor.

Fair, balanced and understandable

The committee was provided with, and commented on, a draft copy of the annual report. At the request of the board, the committee also considered whether the annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. To enable the board to make this declaration, the committee received a paper from management detailing the approach taken in preparing the annual report. The committee is satisfied that, taken as a whole, the annual report and accounts is fair, balanced and understandable.

In carrying out the above processes, key considerations included ensuring that there was consistency between the financial statements and the narrative provided in the front half of the annual report (and that the use of alternative performance measures was appropriate and clearly articulated), that there is a clear and well-communicated link between all areas of disclosure and that the strategic report focused on the balance between the reporting of weaknesses, difficulties and challenges, as well as successes, in an open and honest manner. In addition, the external auditor reviewed the consistency between the narrative reporting in the annual report and the financial statements.

Risk management and internal control

The board as a whole, including the audit committee members, considers the nature and extent of the Group's risk management and internal control framework and the risk profile that is acceptable in order to achieve the Group's strategic objectives. As a result, it is considered that the board has fulfilled its obligations under the Code.

Details of the Group risk management and internal control processes are set out in the risk management section of the strategic report on pages 50 to 59.

Whistleblowing

The Group operates a comprehensive whistleblowing policy. Accordingly, staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee reviews adherence with this policy on an ongoing basis.

Viability statement

The committee has undertaken a detailed assessment of the viability statement and recommended to the board that the directors can believe that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The viability statement can be found on page 41 of the strategic report.

Financial reporting and significant financial issues

The committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements.

The two significant issues considered during the year are detailed below:

- **Contract valuation, revenue and profit recognition**: The committee reviewed the report of the Group finance director that set out the main contract judgements associated with the Group's significant contracts. The significant areas of judgement include the timing of revenue and profit recognition, the estimation of the recoverability of contract variations and claims and the estimation of future costs to complete. The external auditor performed detailed audit procedures on revenue and profit recognition and reported their findings to the committee.
- **Review of carrying value of goodwill and the investment in the Indian joint venture**: The committee considered the carrying value of goodwill and the investment in the Indian joint venture and the assumptions underlying the impairment review. The judgements in relation to impairment largely relate to the assumptions underlying the identification of the Group's cash-generating units ('CGUs') (for goodwill only) together with the calculation of the value in use of the assets being tested for impairment, primarily the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process.

The committee was satisfied that each of the matters set out above had been fully and adequately addressed by management, appropriately tested and reviewed by the external auditor and that the disclosures made in the annual report were appropriate.

In addition, the committee has considered a number of other judgements which have been made by management, none of which had a material impact on the Group's 2017 results. These include the valuation of pension scheme liabilities and the disclosure of certain contingent liabilities.

Internal audit

The Group's internal audit function is currently outsourced to PwC. The committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of management to its recommendations. The scope of PwC's work focused on key financial controls and non-financial reviews covering areas of perceived higher business risk. Results and management actions arising from reviews undertaken by PwC in the current year were also discussed in detail at each of the committee's meetings.

External auditor independence and effectiveness

The year ended 31 March 2017 marks the second year during which KPMG has acted as the Group's external auditor. The committee considers the reappointment of the external auditor, including the rotation of the senior statutory auditor, annually. This also includes an assessment of the external auditor's independence and an assessment of the performance in the previous year, taking into account detailed feedback from directors and senior management across the Group.

The committee also assesses the effectiveness, independence and objectivity of the external auditor by, amongst other things:

- considering all key external auditor plans and reports;
- having regular engagement with the external auditor during committee meetings and ad hoc meetings (when required), including meetings without any member of management being present;
- the chairman of the committee having discussions with Adrian Stone, the senior statutory auditor, ahead of each committee meeting; and
- considering the external audit scope, the materiality threshold and the level of audit and non-audit fees.

AUDIT COMMITTEE REPORT

Following this assessment of the external audit process, the committee agreed that the audit process, independence and quality of the external audit were satisfactory. The committee will continue to assess the performance of the external auditor to ensure that they are satisfied with the quality of services provided.

Reappointment of external auditor

The statutory audit services order ('the Order') requires rotation of audit firms every 10 years unless there is a tender, in which case the audit firm can remain as auditor for up to 20 years.

As previously reported, KPMG were selected as the Group's auditor for the year ended 31 March 2016, following a competitive tender process, and were appointed at the AGM on 2 September 2015. The external auditor is required to rotate the senior statutory auditor every five years. The senior statutory auditor responsible for the Group audit is Adrian Stone, whose appointment in this role commenced with the audit for the financial year ended 31 March 2016.

The committee has recommended to the board that a resolution proposing the appointment of KPMG as external auditor be put to the shareholders at the forthcoming AGM.

Non-audit services

The Group's policy on the engagement of the external auditor for non-audit related services is designed to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Under no circumstances will any assignment be given to the external auditor, when the result would be that:

- as part of the statutory audit, it is required to report directly on its own non-audit work;
- it makes management decisions on behalf of the Group; or
- it acts as advocate for the Group.

This policy has been recently reviewed and amended to ensure that our approach remains in compliance with the Financial Reporting Council's revised Ethical Standard for Auditors, which is designed to implement the new EU Audit regulation restrictions on provision of non-audit services to public interest entities. The changes include further restrictions on the scope of permissible non-audit work and a cap on fees for permissible non-audit work (which may not exceed 70 per cent of the average audit fees paid in the last three consecutive years). The committee's policy of requiring a competitive tender for all work with a fee over £30,000 has remained unchanged.

For work that is permitted under the policy, authority has been delegated to the Group finance director to approve up to a limit of £50,000 (which is considered as 'clearly trifling') for each assignment and there is a cumulative annual total of less than 50 per cent of that year's audit fee. Prior approval is required by the committee for any non-audit assignments over £50,000 or where the 50 per cent audit fee threshold is exceeded. No non-audit services provided by KPMG during the year ended 31 March 2017 required the approval of the committee.

Details of the auditor's fees, including non-audit fees (which complied with the Group's previous policy on the provision of non-audit services), are shown in note 4 to the consolidated financial statements. The total non-audit fees for 2017 represent 4 per cent of the total KPMG audit fee. Those non-audit services undertaken by the auditor were purchased from the auditor because of its existing knowledge of the Group's business which meant it could undertake them more effectively.

Tony Osbaldiston
Chairman of the audit committee
14 June 2017

NOMINATIONS COMMITTEE REPORT

John Dodds
Chairman of the nominations committee

"The committee ensures the continued effectiveness of the board through appropriate succession planning."

Members

John Dodds (chairman)
Tony Osbaldiston
Kevin Whiteman
Alun Griffiths
Chris Holt

The committee met on two occasions during the year.

Role

The primary function of the committee is to deal with key appointments to the board, and related employment matters. The responsibility of the committee principally falls into the following areas:

- To review the structure, size and composition of the board.
- To make recommendations to the board for any changes considered necessary.
- To approve the description of the role and capabilities required for a particular appointment.
- To ensure suitable candidates are identified, having due regard for the benefits of diversity on the board, including gender, and are recommended for appointment to the board.

The committee's terms of reference are available on the Group's website (www.severfield.com) and on request from the Company secretary.

Board effectiveness

The committee has had another relatively quiet year. There have been no new board appointments as the board is currently at full strength, and considered to be operating effectively. The board now consists of nine directors, four of whom have been directors of the Company for less than four years.

Diversity

We have a formally adopted equal opportunities and diversity policy to encourage diversity at all levels within the Group. This policy sets out certain actions that will be taken to contribute to a more diverse workforce throughout the Group and demonstrates our commitment, wherever practicable, to achieving and maintaining a workforce that broadly reflects the communities in which we operate.

We support the findings of the Hampton Alexander Review, which builds on the Davies Review, to increase the number of women on FTSE boards, and to improve women's representation in leadership positions. The Group, however, does not believe in the concept of gender quotas, our preferred approach being much more directed at the selection of the right talent, experience and skill.

In the sectors in which the Group operates female representation at a board level is unusual and as at 31 March 2017, the board had no female directors. Notwithstanding this, the recruitment of Philippa Recchia as Group SHE director in 2016 has increased the female representation on our executive committee to two (14 per cent). The board recognises that gender diversity below board level continues to remain an issue, particularly in management and technical roles within the construction industry.

Succession planning

The committee ensures the continued effectiveness of the board through appropriate succession planning. More work has been done this year to formalise the process of ongoing succession planning across the Group and this was the specific topic of one of our meetings this year.

Evaluation

The committee (led by Kevin Whiteman) performed an internal evaluation using the process described on page 70. The results of the evaluation were positive, following the significant changes made to the board three years ago. The key points arising from the evaluation were documented and discussed with the chairman.

John Dodds
Chairman of the nominations committee
14 June 2017

DIRECTORS' REPORT

Introduction

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2017.

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 14 to 59, as the board considers them to be of strategic importance. Specifically, these relate to the Company's business model and strategy, future business developments, research and development activities and risk (including financial risk) management.

The corporate governance report on pages 67 to 72 is incorporated in this report by reference.

Details of significant events since the balance sheet date are contained in note 31 to the financial statements.

Directors

The present membership of the board is set out on pages 62 and 63.

The other significant commitments of the chairman consist of acting as non-executive chairman of Lagan Construction Holdings Limited and non-executive director of Newbury Racecourse plc.

The service agreements of the executive directors and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office. Brief details are also included in the directors' remuneration report on page 89.

Appointment and replacement of directors

In accordance with the Company's articles, directors shall be no fewer than two and no more than 12 in number. Subject to applicable law, a director may be appointed by an ordinary resolution of shareholders in general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting, or following retirement by rotation if the director chooses to seek re-election at a general meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM. A director may be removed by the Company as provided for by applicable law, in certain circumstances set out in the Company's articles of association (for example bankruptcy or resignation), or by a special resolution of the Company. We have decided this year to adopt voluntarily the practice that all directors stand for re-election on an annual basis, in line with the recommendations of the Code.

Powers of the directors

The business of the Company is managed by the board, who may exercise all the powers of the Company subject to the provisions of the Company's articles of association, the Companies Act 2006 ('the Act') and any ordinary resolution of the Company.

Directors' indemnities

The articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors.

In addition, and in common with many other companies, the Company had during the year and continues to have in place directors' and officers' insurance in favour of its directors and other officers in respect of certain losses or liabilities to which they may be exposed due to their office.

Significant shareholdings

As at 1 June 2017, the Group had been notified of the following voting rights to the Company's shares in accordance with the Disclosure Rules and Transparency Rules of the UK Listing Authority:

Name	Ordinary 2.5p share	%
1. JO Hambro Capital Management	50,010,206	16.73
2. M&G Investments	41,230,604	13.80
3. Threadneedle Investments	27,598,242	9.23
4. Legal & General Investment Management	18,278,735	6.12
5. Artemis Investment Management	16,444,222	5.50
6. Invesco (including Perpetual & Trimark)	16,307,364	5.46
7. Hargreave Hale	15,345,266	5.13

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 2.5p each. No other securities have been issued by the Company. At 31 March 2017, there were 298,855,911 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 22 to the financial statements. During the period, shares in the Company were issued to satisfy awards under the Company's share incentive schemes. Further details regarding employee share-based payment schemes are set out in note 21. No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees.

Voting rights and restrictions on transfer of shares

All of the issued and outstanding ordinary shares of the Company have equal voting rights, with one vote per share. There are no special control rights attaching to them save that the control rights of any ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various employee share plans. In relation to the EBT and any unallocated Company shares held in it, the power to vote or not vote is at the absolute discretion of the trustee. The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or on voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the articles and in the explanatory notes that accompany the Notice of the 2017 AGM. These documents are available on the Company's website at www.severfield.com.

Powers for the Company to buy back its shares and to issue its shares

At the Company's Annual General Meeting ('AGM') held on 6 September 2016, shareholders authorised the Company to make market purchases of ordinary shares representing up to 10 per cent of its issued share capital at that time and to allot shares within certain limits approved by shareholders. These authorities will expire at the 2017 AGM (see below) and a renewal will be sought. The Company did not purchase any of its ordinary shares during the year.

The Directors were granted authority at the previous annual general meeting on 6 September 2016, to allot shares in the Company: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the 2017 AGM (or, if earlier, until the close of business on 30 September 2017). During the period, the directors did not use their power to issue shares under the authorities, but did satisfy options and awards under the Company's share incentive schemes.

The directors were also granted authority at the previous annual general meeting on 6 September 2016, under two separate resolutions, to disapply pre-emption rights. These resolutions, which followed the Pre-emption Group's Statement of Principles (March 2015) on disapplying pre-emption rights applicable at that time, sought the authority to disapply pre-emption rights over 10 per cent of the Company's issued ordinary share capital. These authorities apply until the end of the 2017 AGM (or, if earlier, until the close of business on 30 September 2017). During the period, the directors did not use these powers.

Dividends

The directors declared an interim dividend for the six months ended 30 September 2016 of 0.7p per ordinary share (2016: 0.5p). The directors have recommended a final dividend of 1.6p per ordinary share to be paid on 15 September 2017 to shareholders on the register at the close of business on 18 August 2017.

Change of control

There are no agreements between the Group and its directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

The Group's banking arrangements expire in July 2019 and can be terminated upon a change of control of the Group.

The Company's share plans contain provisions that take effect in such an event but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

Amendment of articles of association

Any amendments to the articles may be made in accordance with the provisions of the Act by way of special resolution.

Political contributions

No contributions were made to any political parties during the current or preceding year.

DIRECTORS' REPORT

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the approval of the financial statements. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

The key factors considered by the directors in making the statement are set out in the financial review on pages 36 to 41.

Additional disclosures

Additional information that is relevant to this report, and which is incorporated by reference into this report, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R, can be located as follows:

- Employee involvement and engagement – pages 44 and 48.
- Equal opportunities (including for the disabled) – page 46.
- Greenhouse gas emissions – page 44
- Long-term incentive plans – page 87 of the directors' remuneration report
- Statement of directors' interests – page 96 of the directors' remuneration report
- Financial instruments – note 20 to the Group financial statements
- Credit, market, foreign currency and liquidity risks – note 20 to the Group financial statements
- Related party disclosures – note 30 to the Group financial statements

Disclosure of information to the external auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

External auditor

KPMG LLP acted as the auditor for the Company for the year ended 31 March 2017. KPMG has expressed its willingness to continue in office as external auditor and a resolution to appoint it will be proposed at the forthcoming AGM.

Annual general meeting

The notice concerning the AGM to be held at Aldwark Manor Hotel, York at noon on Wednesday 6 September 2017, together with explanatory notes on the resolutions to be proposed and full details of the deadlines for exercising voting rights, is contained in a circular to be sent to shareholders with this report.

The directors' report from pages 78 to 80 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary
14 June 2017

Mark Sanderson
Company secretary

DIRECTORS' REMUNERATION REPORT

I am pleased to present our remuneration report incorporating our annual report on remuneration and remuneration policy which are both being tabled for shareholder approval at the 2017 AGM.

Alun Griffiths
Chairman of the remuneration committee

> "Remuneration policy is aligned with the priorities of shareholders in incentivising management to meet demanding short-term targets and to deliver targeted profit growth over the longer term, whilst ensuring that high safety standards are achieved."

Dear shareholder

The Group has performed very well during the year with good top and bottom line growth supported by strong cash flow. This was achieved through continuing focus on operational improvement, bid and contract management, supported by continued investment in people, processes and technology.

Remuneration policy

This year we have reviewed the remuneration policy of the Group which will be put to shareholders for approval in a binding vote at the AGM. The review confirmed that our policy remains fit for purpose in aligning the interests of management with shareholders and in linking reward to performance. Nevertheless, we have taken the opportunity to make changes where appropriate to strengthen alignment and to ensure that executives are rewarded for delivering sustainable profit growth in the medium to long term.

To that end, we have increased materially the shareholding requirement for senior executives and have strengthened the malus and clawback provisions that apply both to the Performance Share Plan and Deferred Share Bonus Plan. This underscores the committee's policy of aligning director and shareholder interests and reflects the views of investor associations and good governance.

As part of the review of the annual bonus plan and its operation, coincident with strengthening the malus and clawback provisions and increased shareholding requirement, we have clarified our approach to the treatment of leavers for future awards. The rules of the plan will be modified to define the scenarios when forfeiture would apply to deferred bonus shares rather than the scenarios in which good leaver status would be granted. For instance, forfeiture would apply in the event of dismissal for misconduct, fraud and performance issues and where an executive leaves for alternative employment at a competitor. The three-year vesting period would still apply.

Key changes to remuneration policy

- Strengthening of malus and clawback provisions for PSP and bonus share awards.
- Increase in shareholding requirement from 100 per cent of salary to 200 per cent for CEO and Group finance director and 150 per cent for others.
- Increase in 'normal' PSP award for Group finance director from 75 per cent to 100 per cent of salary.
- Clarify approach to the treatment of leavers for future bonus share awards.

DIRECTORS' REMUNERATION REPORT

We will also be changing the mechanism for delivering deferred shares which for future awards will be via an Employee Benefit Trust rather than through the purchase of shares in the executives' name (at the time of deferral) and the execution of a bonus deferral agreement.

We have reviewed the structure of the Performance Share Plan and will be seeking shareholder approval for a new plan on broadly the same basis as the current plan. As part of this review, we looked in detail at award levels and targets and other than increasing the normal annual maximum award levels for the Group finance director to 100 per cent of salary, propose to make only minor changes to improve flexibility.

We have noted the increased investor focus on the further alignment with shareholder interests through the introduction of post-vesting holding periods. We are not proposing to introduce a post-vesting holding requirement for the PSP at this time, however we recognise the importance of long-term share ownership and believe for Severfield that the most appropriate way to achieve this at the current time is by increasing the shareholding requirements as set out above. We will continue to take into account any feedback from shareholders and proxies and will consider this further in the future.

Annual remuneration report

The annual remuneration report describes the implementation of this policy, in particular in relation to reward for performance in 2017.

I am pleased to report that the base financial targets set by the board were exceeded and the base safety targets met, resulting in a bonus pay-out of 95 per cent of the maximum for all of the executive directors except Derek Randall who achieved a bonus pay-out of 80 per cent.

The targets for the 2014 PSP award (EPS targets which equated to PBT of between £12m and £24m) were met resulting in the expected vesting of these awards at 74 per cent of maximum.

During the year, the directors received a 2.5 per cent salary increase which was broadly in line with that received by the UK workforce. In all cases the increases were effective from 1 July 2016.

Implementation of policy for 2018

Salaries for the directors will be reviewed later this year after the conclusion of the pay review across the Group and will be effective from 1 July 2017. A review of fees for the Chairman has concluded that the current fee level of £100,000 per annum is materially below market and we have determined that this should rise to £125,000. Furthermore, given the recent management changes implemented for the duration of Ian Lawson's absence through ill-health, we have determined that this should be increased to £175,000 for the duration of John Dodds' temporary appointment as executive chairman. This increase will be effective from 1 April 2017. There will be no change to the fees paid to non-executive directors.

The financial and safety performance targets for the 2018 bonus reflect the continued strong forward momentum of the Group. The committee considered the balance of financial and non-financial measures, as well as the appropriateness of each measure, and considers that these remain appropriate for the year ahead.

The share plan targets are intended to incentivise management to maintain this momentum and will require the Group to deliver earnings per share ('EPS') in the range of 6.76p to 7.98p in 2020. This equates to a PBT range of £25.0m to £29.5m. This represents an increase in the lower vesting threshold of £6.4m (34 per cent) and in the threshold at which maximum vesting takes place of £5.5m (23 per cent). This represents a vesting range which the committee feels is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

Conclusion

Through the changes set out above, the committee has sought to strengthen alignment and ensure that pay remains firmly linked to performance whilst ensuring that the bonus and performance share plans provide a strong incentive for management to deliver superior performance over the short and longer term. We believe that our remuneration policy achieves these objectives.

I wrote to our top ten shareholders in early June with details of our proposed changes and will continue to engage with all shareholders before and at the AGM to answer any questions shareholders might have.

Alun Griffiths
Chairman of the remuneration committee
14 June 2017

This report complies with the provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the UK Corporate Governance Code 2014 and the UKLA Listing Rules and the Disclosure and Transparency Rules. The remuneration committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the Investment Association and the NAPF.

The report is in two sections:

- the directors' remuneration policy (pages 83 to 90). Shareholders will be asked to approve the new directors' remuneration policy at the AGM on 6 September 2017 and it will, if approved, apply to payments made from this date. Until then the 2014 policy will continue to apply. The new 2017 policy is intended to apply for a period of three years from the AGM. A copy of the 2014 policy can be found on page 66 in the 2014 annual report. The proposed Performance Share Plan will be formally effective following shareholder approval at the 2017 AGM. If approved, the PSP will supersede that approved by shareholders in 2007.
- the directors' annual remuneration report (pages 91 to 100). This section sets out the details of how our remuneration policy was implemented for the year ended 31 March 2017 and how we intend to apply it for the year ending 31 March 2018, and it is subject to an advisory vote at this year's AGM.

PART 1 – REMUNERATION POLICY

Executive directors

Base salaries

Purpose and link to strategy

To provide the core reward for the role.

Sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.

Operation

Base salaries are normally reviewed annually by the committee.

Our review takes into account levels of increase across the broader workforce, changes in responsibility, and a periodic remuneration review for comparable companies.

Maximum opportunity	Performance conditions
There is no prescribed maximum. Current salaries are disclosed in the annual report on remuneration. Increases (as a percentage of salary) are generally limited to the range set for the wider workforce. However, further increases may be awarded where there have been significant changes in the scope and/or responsibilities of the role or a material change in the size and scale of the Group.	The committee considers individual salaries each year having due regard to the factors noted in operation of the policy. No recovery provisions apply to salary.

Change from 2014 policy and rationale

No substantive changes from the 2014 policy.

DIRECTORS' REMUNERATION REPORT

Benefits

Purpose and link to strategy

Cost-effective benefits, sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.

Operation

The Group currently provides the following employee benefits:

- Life assurance at four times salary
- Medical insurance for self with option to purchase for family
- Company car and fuel allowance

Relocation expenses would be paid as appropriate for new recruits or a change in role.

In circumstances where an executive is deployed on an international assignment, their arrangements will be managed in a way that is consistent with good practice for international organisations. Additional allowances may also be paid, e.g. to cover any increase in cost of living, tax equalisation and/or additional accommodation costs.

The committee may wish to offer executive directors other employee benefits on broadly similar terms as those offered to other employees from time to time, provided within the maximum opportunity limit.

Maximum opportunity	Performance conditions
The value of insured benefits can vary from year to year based on the costs from third party providers. The total value of benefits (excluding relocation and international assignment allowances) will not exceed more than 15 per cent of salary in any year.	No performance conditions or recovery provisions apply to benefits.

Change from 2014 policy and rationale

No substantive changes from the 2014 policy.

Pension	
Purpose and link to strategy	
Cost-effective long-term retirement benefits, sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
Group contribution to defined contribution scheme (own or the Group's), a cash supplement or a combination of both up to the maximum value. Director has no obligation to match Group contributions.	
Maximum opportunity	**Performance conditions**
Twenty per cent of base salary contribution/cash supplement for chief executive officer and 18 per cent of salary for others up to a maximum of £50,000 (with the exception that for executive directors commencing service before 1 November 2013 where the Group pays a fixed contribution/cash supplement of £50,000 per annum). For international assignments the Group may be required to make additional payments to comply with local statutory requirements.	No recovery provisions apply to pension benefits.
Change from 2014 policy and rationale	
No substantive changes from the 2014 policy.	

DIRECTORS' REMUNERATION REPORT

Annual bonus

Purpose and link to strategy

To focus attention on achieving short-term corporate objectives, incentivise outperformance of targets and provide a deferred element to reinforce the impact of long-term performance.

Operation

Any annual bonus award is made 50 per cent in cash and 50 per cent in shares deferred for three years under the rules of the Group's deferred share bonus plan ('DSBP'). The plan incorporates a malus and clawback mechanism for instances of financial misstatement, error, substantial failures in risk control, serious misconduct or any other exceptional circumstances determined by the remuneration committee. The malus and clawback provisions will extend to the cash element of the annual bonus.

Dividends may accrue on deferred bonus shares.

Maximum opportunity	Performance conditions
Maximum 100 per cent of base salary per annum.	The committee will review the appropriateness of performance measures on an annual basis and consider whether there is a need to rebalance or amend the performance measures and weightings to reflect the business objectives at the time. However, the majority of the annual bonus will be subject to financial targets. Currently the business uses a combination of underlying profit before tax ('PBT') targets and accident frequency rate ('AFR') targets. A minority of bonus will be payable for threshold levels of performance. The actual measures and weightings are set out in the annual report on remuneration on page 94.

Change from 2014 policy and rationale

Strengthening of malus and clawback provisions to include: (i) introduction of malus provisions; (ii) extension of policy flexibility in which malus and clawback could apply; and (iii) extension of a time frame for which malus and clawback could apply.

Definition of the scenarios when forfeiture would apply to deferred bonus shares rather than the scenarios in which good leaver status would be granted. Forfeiture would apply in the event of dismissal for misconduct, fraud and performance issues and where an executive leaves for alternative employment at a competitor.

Performance Share Plan ('PSP') (approved by shareholders in 2007)

Purpose and link to strategy

Incentivise and reward for long-term sustainable performance linked to corporate strategy and provide alignment with shareholders' interests.

Operation

Annual grant of performance shares which will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a prescribed period of three years or more.

There is a malus and clawback mechanism for instances of financial misstatement, error, substantial failures in risk control, serious misconduct or any other exceptional circumstances determined by the remuneration committee.

Dividends may accrue on vested awards.

Maximum opportunity	Performance conditions
Maximum annual award level is 150 per cent of salary. The current award policy is, in normal circumstances, for awards of up to 100 per cent of salary for the chief executive officer and the Group finance director and 75 per cent of salary for other executive directors.	The committee will determine each year the appropriate award levels and performance conditions based on the corporate strategy at the time. However, a financial measure such as underlying earnings per share ('EPS') will be used for at least half of any award. Currently the awards are subject to an EPS growth target, the details of which are set out in the annual remuneration report. No more than 25 per cent of an award will vest for performance at the lower threshold of EPS targets.

Change from 2014 policy and rationale

Strengthening of malus and clawback provisions to include: (i) introduction of malus provisions; (ii) extension of policy flexibility in which malus and clawback could apply;and (iii) introduction of a time frame for which malus and clawback could apply.

Increased normal award levels for the Group finance director.

All-employee share plan

Purpose and link to strategy

To foster wider employee share ownership.

Operation

The Group currently operates a share incentive plan and introduced a sharesave scheme in February 2015.

Participation in any all-employee share plans operated by the Group is in line with HMRC guidelines. Executive directors are entitled to participate on the same basis as for other eligible employees.

Maximum opportunity	Performance conditions
The Group has discretion under the all-employee share plans to issue awards up to the HMRC approved limits as set from time to time.	No recovery provisions apply to all-employee share awards.

Change from 2014 policy and rationale

No substantive changes from the 2014 policy.

DIRECTORS' REMUNERATION REPORT

Notes to the policy table

Choice of performance conditions and metrics

Our role as the remuneration committee includes the establishment of performance goals through long-term incentive plans which are challenging but achievable through superior performance, thereby incentivising and rewarding success.

The long-term incentive plan currently incorporates an EPS performance measure, which is a key financial metric that is aligned with shareholder interests. The committee has considered and taken advice on alternative performance measures, such as total shareholder return ('TSR'), to substitute for (all or part of) the use of the EPS range used in the past. Lack of a suitable peer group of similar listed companies made this approach impracticable and to date we have found no better benchmark.

No performance targets are set for any share incentive plan or sharesave plan awards since these form part of all-employee arrangements that are purposefully designed to encourage employees across the Group to purchase shares in the Company.

Details of all the outstanding share awards granted to existing executive directors are set out in the annual remuneration report.

The discretions retained by the committee in operating the annual bonus and the PSP

The committee will operate the annual bonus (including the deferred share element) and the PSP according to their respective rules and in accordance with the Listing Rules where relevant.

The committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans.

In relation to both the Group's PSP and annual bonus plan, the committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. material acquisition and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the annual report on remuneration and may, as appropriate, be the subject of consultation with the Group's major shareholders.

Illustration of application of the policy

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much each executive director could earn under Severfield's remuneration policy (as detailed above) under different performance scenarios.

The following assumptions have been made:

- Minimum (performance below threshold) — Fixed pay only with no vesting under the annual bonus or PSP.
- Target (performance in line with expectations) — Fixed pay plus a bonus at the mid-point of the range (i.e. 50 per cent of the maximum opportunity) and a PSP award of 100 per cent of salary for the chief executive officer and Group finance director and 75 per cent of salary for other executives vesting at 50 per cent of the maximum.
- Maximum (performance meets or exceeds maximum) — Fixed pay plus maximum bonus and maximum PSP award vesting.

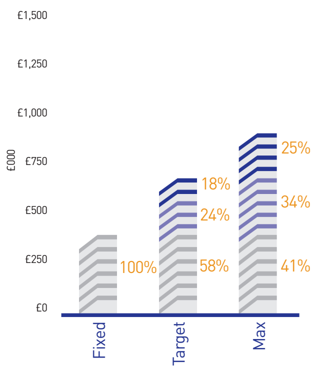
Fixed pay comprises:

- Salaries — salary effective as at 1 July 2017;
- Benefits — amounts expected to be received by each executive director in the 2018 financial year;
- Pension — amount that will be received by each executive director in the 2018 financial year based on the policy set out in the table above.

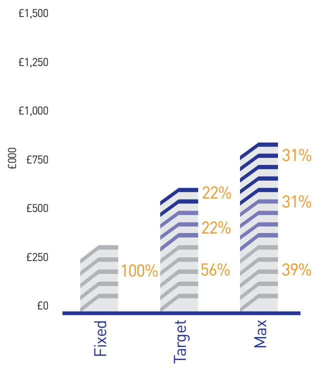
The scenarios do not include any share price growth.

Chief executive officer

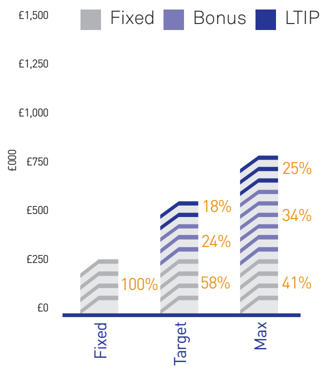
Chief operating officer



Group finance director



Executive director



Executive directors' service agreements

All executive directors' service agreements run on a rolling basis. Notice periods of 12 months are required to be given by all parties. Payment to be made in lieu of notice on termination is equal to 12 months' salary or to any proportion of unexpired notice period.

Full details of the contracts of each director, including the date, unexpired term and any payment obligations on early termination, are available from the Company secretary at the annual general meeting.

Provision on payment for loss of office

If an executive director's employment is to be terminated, the committee's policy in respect of the contract of employment, in the absence of a breach of the service agreement by the director, is to agree a termination payment based on the value of base salary that would have accrued to the director during the contractual notice period. The committee will consider mitigation to reduce the termination payment to a leaving director when appropriate to do so, having regard to the circumstances.

The payment of any annual bonus will be at the committee's discretion and will be based on the circumstances of the termination. Any bonus payment will be calculated after assessing the relevant performance conditions and will only be in relation to the service period worked.

The rules of the PSP set out what happens to share awards if a participant ceases to be an employee or director of the Company before the end of the vesting period. Generally, any outstanding awards will lapse on such cessation, except in certain circumstances. If the executive director ceases to be an employee or director of the Company that employs the individual as a result of death, disability, retirement, the sale of the business or company that employs the individual or for any reason at the discretion of the committee, then they will be treated as a 'good leaver' under the plan rules.

Other than in the case of death, a good leaver's unvested awards will vest on the normal vesting date subject to the achievement of any relevant performance condition, with a pro-rata reduction to reflect the proportion of the vesting period served. In determining whether an executive director should be treated as a good leaver and the extent to which their award may vest, the committee may take into account the circumstances of an individual's departure.

Under the rules of the DSBP, as modified, the basis on which awards will generally be forfeited will include dismissal for misconduct, fraud and performance issues and where an executive leaves for alternative employment at a competitor. The three-year vesting period would still apply.

Our recruitment remuneration policy

Base salary levels will be set in accordance with our remuneration policy, taking into account the experience and calibre of the individual and the relevant market rates at the time. Where it is appropriate to offer a lower salary initially, progressive increases (possibly above those of the wider workforce as a percentage of salary) to achieve the desired salary positioning may be given over the following few years subject to individual performance and continued development in the role.

Benefits will be provided in line with those offered to other employees, with relocation expenses/arrangements provided for if necessary.

Should it be appropriate to recruit a director from overseas, flexibility is retained to provide benefits that take account of those typically provided in their country of residence (e.g. it may be appropriate to provide benefits that are tailored to the unique circumstances of such an appointment).

Pension contributions or a cash supplement up to the maximum level indicated in the policy table will be provided, although the committee retains the discretion to structure any arrangements as necessary to comply with the relevant legislation and market practice if an overseas director is appointed.

The aggregate ongoing (i.e. after the year of appointment) incentive opportunity offered to new recruits will be no higher than that offered under the annual bonus plan and the PSP policy to the existing executive directors. In the year of appointment the annual bonus opportunity will be no higher than that offered to existing executive directors, prorated for the period of service (i.e. 100 per cent of salary on an annualised basis). The committee may award up to 150 per cent of salary under the PSP although in exceptional circumstances, in order to facilitate the buy-out of existing awards the committee may go above this limit (see below).

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that they joined.

The above policy applies to both an internal promotion to the board and an external hire.

DIRECTORS' REMUNERATION REPORT

In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for, taking into account the form (cash or shares) and timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, will be granted using the Group's existing share plans to the extent possible (including the use of the exceptional limit under the PSP), although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the board appointment).

On the appointment of a new chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual and the expected time commitments of the role. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

How are the non-executive directors paid?

The chairman and non-executive directors receive an annual fee (paid in monthly instalments by payroll). The fee for the chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the board, on the recommendations of the chairman and the chief executive officer.

Element	Purpose and link to strategy	Operation (including maximum levels)
Fees	To attract and retain a high-calibre chairman and non-executive directors by offering market competitive fee levels.	Current fee levels are disclosed in the annual report on remuneration. The chairman and the other non-executive directors receive a basic board fee, with supplementary fees payable for additional board responsibilities. Non-executive directors will be reimbursed for any normal business-related expenses and any taxable benefit implications that may result. The non-executive directors do not participate in any of the Group's incentive arrangements or pension scheme. The fee levels are normally reviewed on a periodic basis, and may be increased, taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Fee increases may be greater than those of the wider workforce in a particular year, reflecting the periodic nature of increases and that they take into account changes in responsibility and/or time commitments. Additional fees may be payable to reflect exceptional time commitments. No benefits or other remuneration are provided to non-executive directors.
Change from 2014 policy and rationale		
There are no substantive changes from the 2014 policy.		

What are the terms of appointment of the non-executive directors?

The chairman's and non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is one month in all cases. The non-executive directors are not entitled to any compensation on loss of office.

Shareholding guideline

Executive directors are required to retain shares acquired under equity incentive schemes until such time they have built up a holding equivalent in market value (at the date of vesting) to a proportion of the executive's base salary (namely 200 per cent in the case of the CEO and the Group finance director and 150 per cent in the case of the other executive directors). Thereafter, the executive directors will be under a continuing obligation to maintain at least such a holding.

PART 2 – ANNUAL REMUNERATION REPORT

In this section, we report on the implementation of our policies in the year ended 31 March 2017 as well as how the policy will be implemented for 2018. The regulations require the auditor to report to the Group's shareholders on the auditable part of the directors' remuneration report and to state whether, in its opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The relevant sections subject to audit have been highlighted in the annual report on remuneration.

In determining the remuneration of executive directors and remuneration policy for the Group, the committee took account of general market conditions and pay levels for the workforce as a whole. In so doing, the committee reviewed wage growth generally and the proportion of earnings paid as bonus to groups of staff at each level – executive directors, senior staff and all other employees (who receive a profit share bonus and are eligible to participate in an SAYE scheme). The Group recognises a number of trade unions who are consulted regarding wage settlements on a site-by-site basis and seeks employee participation on a range of matters including safety.

Implementation of policy for 2017

Remuneration committee

Membership, meetings and attendance

The Group has an established remuneration committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code.

The members of the remuneration committee who served during the year are shown below together with their attendance at remuneration committee meetings:

	Number of meetings attended:
Alun Griffiths (chairman)	4/4
John Dodds	4/4
Chris Holt	4/4
Kevin Whiteman	4/4
Tony Osbaldiston	4/4

The Group considers all members of the committee to be independent. Executive directors may attend remuneration committee meetings at the invitation of the committee chairman, but do not take part in any discussion about their own remuneration.

The terms of reference for the remuneration committee are available on the Company's website.

Advisers to the committee

The committee retained New Bridge Street (an Aon plc company) as an independent adviser to the remuneration committee throughout the year. New Bridge Street is a member of the Remuneration Consultants Group and is a signatory to its code of conduct. Neither New Bridge Street nor any other part of Aon plc provided other services to the Group during the year. The fees paid to New Bridge Street for work carried out during the year ended 31 March 2017 totalled £34,000 (2016: £9,000).

DIRECTORS' REMUNERATION REPORT

Directors' earnings for the 2017 financial year (audited)

Remuneration received by the directors

	Year ended 31 March 2017						
£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
Executives							
Ian Lawson	373	359	—	28	75	370	1,205
Ian Cochrane	293	282	—	31	50	218	874
Alan Dunsmore	248	239	—	16	50	179	732
Derek Randall	243	195	—	—	50	179	667
Non-executives							
John Dodds	—	—	100	—	—	—	100
Tony Osbaldiston	—	—	45	—	—	—	45
Kevin Whiteman	—	—	45	—	—	—	45
Alun Griffiths	—	—	45	—	—	—	45
Chris Holt	—	—	40	—	—	—	40
	1,157	1,075	275	75	225	946	3,753

Taxable benefits include the provision of company cars, fuel for company cars, car and accommodation allowances and private medical insurance. LTIPs reflect those PSP awards expected to vest based on performance to 31 March 2017.

*Calculated at 74 per cent of maximum award x the average share price over the period 1/1/17 to 31/3/17 of 79.05p.

	Year ended 31 March 2016						
£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
Executives							
Ian Lawson	366	231	—	28	73	248	946
Ian Cochrane	288	181	—	25	50	123	667
Alan Dunsmore	242	152	—	16	50	101	561
Derek Randall	236	102	—	—	50	101	489
Non-executives							
John Dodds	—	—	100	—	—	—	100
Tony Osbaldiston	—	—	45	—	—	—	45
Kevin Whiteman	—	—	45	—	—	—	45
Alun Griffiths	—	—	45	—	—	—	45
Chris Holt	—	—	40	—	—	—	40
	1,132	666	275	69	223	573	2,938

Taxable benefits include the provision of company cars, fuel for company cars, car and accommodation allowances and private medical insurance.

* LTIPs reflect those PSP awards vesting based on performance to 31 March 2016 and are calculated as actual value of benefit at the actual vesting date based on the vesting share price of 68.50p for Ian Lawson, 43.75p for Derek Randall and 43.69p for the other executive directors.

Remuneration received by the directors

During the year the directors received a 2.5 per cent salary increase, which was broadly in line with that received by the UK workforce. In all cases the increases were effective from 1 July 2016.

Past directors/loss of office payments (audited)

There have been no payments made to past directors or any payment for loss of office.

How pay linked to performance in 2017

Bonus

The executive directors will receive the bonuses set out in the table below, of which 50 per cent will be paid in shares deferred for three years.

Under the rules of the Group's deferred share bonus plan the participants will have beneficial ownership of the shares, the share certificates are retained by the Company secretary for a period of three years and, unless otherwise determined by the remuneration committee, are subject to forfeiture provisions in the event of termination of employment prior to the expiry of this period.

Ian Lawson	£359,000
Ian Cochrane	£282,000
Alan Dunsmore	£239,000
Derek Randall	£195,000

As reported last year, the bonus plan applicable to the executive directors for 2017 had two separate performance conditions:

- Eighty per cent was payable on achieving budgeted Group PBT (with the exception of Derek Randall who, whilst he remains in India, has the profit performance-based component of his bonus split 50/50 between Group PBT and PBT for India). The financial element begins to pay out at 95 per cent of budgeted Group PBT, rising to 50 per cent of this element being payable for achieving budget and full pay-out for achieving 120 per cent of budget.
- Twenty per cent was payable based on achieving a target Group AFR (with the exception of Derek Randall who, whilst he remains in India, has the AFR-based component of his bonus based on AFR (India)).

Our policy is to disclose annual PBT and AFR targets retrospectively following the end of the performance period, unless, in the view of the remuneration committee, this would compromise the commercial position of the Group.

DIRECTORS' REMUNERATION REPORT

The targets for 2017 and the pay-out against these targets are set out below:

All directors (excluding Derek Randall):

Measure	% of maximum bonus opportunity	Performance required Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	80%	£16.0m	£16.9m	£20.2m	£19.8m	94%	75%
Group AFR	20%	0.28	0.28	0.28	0.24	100%	20%
							95%

* For Group PBT, 'threshold' represents 95 per cent of budget, 'on-target' represents 100 per cent of budget and 'maximum' represents 120 per cent of budget.

Derek Randall (JSSL managing director):

Measure	% of maximum bonus opportunity	Performance required Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	40%	£16.0m	£16.9m	£20.2m	£19.8m	94%	38%
JSSL (India) PBT*	40%	Loss of 10.9 Cr	Break-even	Profit of 15.0 Cr	Profit of 1.37 Cr	55%	22%
JSSL (India) AFR	20%	0.12	0.12	0.12	0.00	100%	20%
							80%

* For Group and JSSL PBT, 'threshold' represents 95 per cent of budget, 'on-target' represents 100 per cent of budget and 'maximum' represents 120 per cent of budget.

PSP

The 2014 PSP awards are due to vest in June 2017, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2017. The minimum EPS figure required for vesting of 25 per cent of the award was *c.*3.23p which equates to a PBT of £12.0m. The EPS figure required for vesting at maximum of 100 per cent of the award was *c.*6.45p which equates to a PBT of £24.0m. The actual PBT achieved was £19.8m which equates to EPS of 5.53p and therefore it is estimated that 74 per cent (taking into account linear interpolation) of these awards will vest subject to continued service. A summary is set out below:

PSP awards granted to directors in 2017 (audited)

Share awards were made in the year under the PSP scheme for the three-year period expiring on 31 March 2019. Details of the awards made to the executive directors are summarised below.

	Type	Number of shares	% of salary	Face value (£)[1]	Performance condition[2]	Performance period	% vesting at threshold
Ian Lawson	Nil-cost option	741,186	100%	368,740	EPS	3 financial years ending 31 March 2019	25%
Ian Cochrane	Nil-cost option	436,637	75%	217,227			
Alan Dunsmore	Nil-cost option	492,714	100%	245,125			
Derek Randall	Nil-cost option	359,071	75%	178,638			

1. Face value calculated based on the pre-grant date share price of 49.75p on 28 June 2016.
2. Performance conditions are based on EPS targets of 5.06p (minimum performance — 25 per cent vests) to 6.53p (maximum performance – 100 per cent vests) with linear interpolation in between. This represents a PBT range of £18.6m–£24m.

The PSP and the annual bonus plan contain recovery and withholding (i.e. clawback) provisions which can be applied before an award vests or for a period of three years post vesting or within three years of the bonus being paid. Clawback can be applied when it becomes apparent that a PSP award or bonus was larger than ought to have been the case due to the Company having materially misstated its financial results or having made an error in assessing any performance condition or bonus. Clawback can also be applied in the case of subsequently discovered misconduct of a relevant individual or where there has been a substantial failure of risk control. The amount of the relevant clawback would be the net of tax amount (or the full amount to the extent that the individual can recover any tax paid) that had effectively been overpaid in the case of misstatement or error or would be at the committee's discretion in the case of misconduct. Clawback can be imposed by a reduction in the amount of any unvested PSP award, a reduction in the amount of any future bonus or by a requirement to pay back the amount in question (with a right to deduct from salary).

Outstanding share awards at the year-end (audited)

Details of share awards under the PSP to the executive directors which were outstanding at the year-end are shown in the following table:

Director	Year of award	Vesting date (June)	Performance condition	Awards held at 1 April 2016	Awards granted in year	Awards lapsed in year	Awards vested in year	Awards held at 31 March 2017
Ian Lawson	2013	2016	EPS	549,020	—	(186,514)	(362,506)	**—**
	2014	2017	EPS	632,054	—	—	—	**632,054**
	2015	2018	EPS	513,262	—	—	—	**513,262**
	2016	2019	EPS	—	741,186	—	—	**741,186**
Total				**1,694,336**	**741,186**	**(186,514)**	**(362,506)**	**1,886,502**
Ian Cochrane	2013	2016	EPS	429,688	—	(149,160)	(280,528)	**—**
	2014	2017	EPS	372,460	—	—	—	**372,460**
	2015	2018	EPS	302,366	—	—	—	**302,366**
	2016	2019	EPS	—	436,637	—	—	**436,637**
Total				**1,104,514**	**436,637**	**(149,160)**	**(280,528)**	**1,111,463**
Alan Dunsmore	2013	2016	EPS	353,359	—	(122,664)	(230,695)	**—**
	2014	2017	EPS	306,298	—	—	—	**306,298**
	2015	2018	EPS	248,656	—	—	—	**248,656**
	2016	2019	EPS	—	492,714	—	—	**492,714**
Total				**908,313**	**492,714**	**(122,664)**	**(230,695)**	**1,047,668**
Derek Randall	2013	2016	EPS	353,359	—	(122,664)	(230,695)	**—**
	2014	2017	EPS	306,298	—	—	—	**306,298**
	2015	2018	EPS	248,656	—	—	—	**248,656**
	2016	2019	EPS		359,071	—	—	**359,071**
Total				**908,313**	**359,071**	**(122,664)**	**(230,695)**	**914,025**
				4,615,476	**2,029,608**	**(581,002)**	**(1,104,424)**	**4,959,658**

Performance conditions are based on a range of EPS targets as follows:

	Threshold (25% vests)	Maximum (100% vests)
2014 award[1]	3.23p	6.45p
2015 award[2]	4.30p	6.45p
2016 award[3]	5.06p	6.53p

1. Represents a PBT range of £12.0m – £24.0m.
2. Represents a PBT range of £16.0m – £24.0m.
3. Represents a PBT range of £18.6m – £24.0m.

DIRECTORS' REMUNERATION REPORT

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2017:

	Owned shares[1]	Share incentive plan (SIP)[2]	Sharesave scheme	DSBP[3]	PSP[4]	Total[5,6]
Executives						
Ian Lawson	274,216	7,039	33,003	230,968	1,886,502	**2,431,728**
Ian Cochrane	2,857,394	14,400	33,003	242,533	1,111,463	**4,258,793**
Alan Dunsmore	172,051	14,400	33,003	135,669	1,047,668	**1,402,791**
Derek Randall	207,005	4,667	33,003	154,693	914,025	**1,313,393**
Non-executives						
John Dodds	419,833	—	—	—	—	**419,833**
Tony Osbaldiston	—	—	—	—	—	**—**
Kevin Whiteman	—	—	—	—	—	**—**
Alun Griffiths	30,000	—	—	—	—	**30,000**
Chris Holt	53,097	—	—	—	—	**53,097**

1. Includes shares owned by connected persons.
2. SIP shares are unvested and held in trust.
3. The principal terms of the deferred share bonus plan are described on page 86.
4. PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2014 awards which had not actually vested as at 31 March 2017.
5. As at 31 March 2017, only Ian Cochrane satisfied the Company's shareholding guideline (see page 90). The other executive directors will be required to retain a proportion of any net of tax shares which may vest from equity-based plans until the guideline is achieved.
6. There have been no changes in the directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this annual report, except shares held pursuant to the SIP. There have been no changes in the directors' beneficial interests in trusts holding ordinary shares of the Company. The executive directors continued their membership in the SIP after the end of the period and were therefore awarded further shares pursuant to the SIP rules. Between the end of the period and 21 May 2017, being the last practicable date prior to the publication of this annual report, the executive directors acquired further shares under the SIP as set out in the table below.

Executives	New SIP shares since 31 March 2017	Total SIP shares at 14 June 2017
Ian Lawson	**298**	**7,337**
Ian Cochrane	**299**	**14,699**
Alan Dunsmore	**299**	**14,699**
Derek Randall	**—**	**4,667**

Position against dilution limits

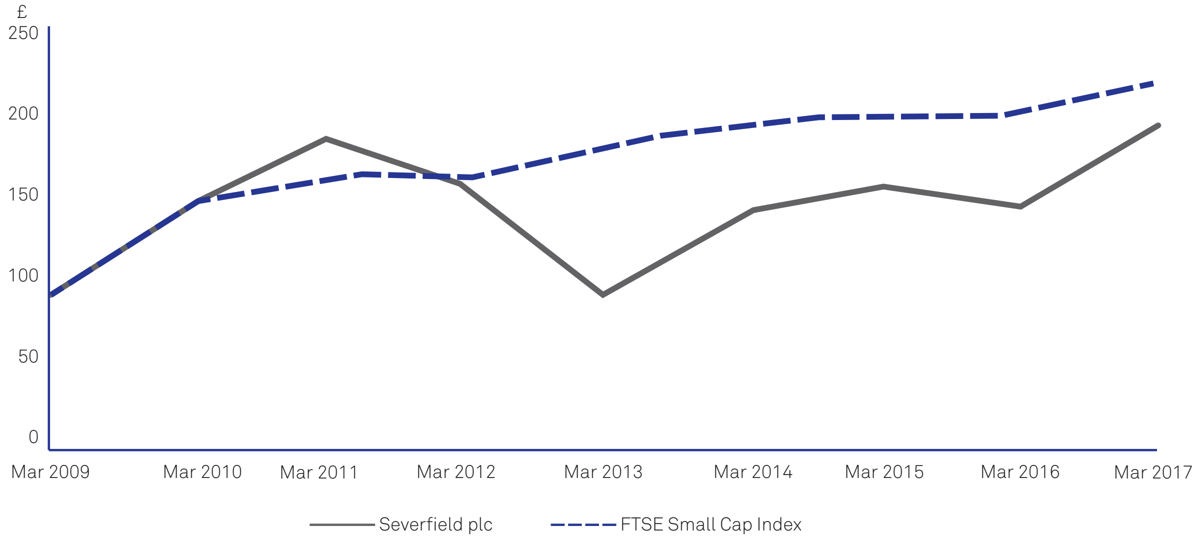
Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan (SIP), sharesave scheme and the PSP) must not exceed 10 per cent of the issued share capital in any rolling 10-year period. The Group's position against its dilution limit as at 31 March 2017 was well under the maximum 10 per cent limit at 4.6 per cent.

Performance graph

The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. It is based on the change in the value of a £100 investment made on 31 March 2009 over the eight-year period ended 31 March 2017.

This index was selected as it represents a broad equity market index and an appropriate comparator group of companies over the period.

Total shareholder return



Source: Datastream (Thomson Reuters)

Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same eight-year period. Total remuneration includes bonuses and the value of PSP awards which vested (or in the case of 2017 are expected to vest) based on performance in those years (at the share price at which they vested or, in the case of the 2017 figures, at the average share price for the quarter immediately prior to the year-end).

	2009 Haughey	2010 Haughey	2011 Haughey	2013 Haughey[1]	2013 Dodds[2, 3]	2014 Dodds[2]	2014 Lawson[4]	2015 Lawson	2016 Lawson	2017 Lawson
Total remuneration (£000)	1,265	640	701	450	62	289	233	681	946	1,205
Annual bonus (%)	94.8%	50.1%	60.5%	—	N/A	N/A	34.0%	65.0%	63.0%	95.0%
LTIP vesting (%)	100.0%	100.0%	—	—	N/A	N/A	—	—	64.0%	74.0%

1. Tom Haughey received compensation of £423,000 for loss of office in accordance with his contract.
2. John Dodds was appointed executive chairman in an interim capacity following Tom Haughey's resignation as chief executive officer on 23 January 2013 and prior to the appointment of Ian Lawson as chief executive officer on 1 November 2013. During this time he was awarded a discretionary bonus (no maximum was set) but not entitled to any PSP award. These figures do not include his fees as non-executive chairman.
3. Financial year 2013 represented the 15-month period to 31 March 2013.
4. Appointed on 1 November 2014.

DIRECTORS' REMUNERATION REPORT

How the change in chief executive officer pay for the year compares to that of the Group's employees

The table below shows the percentage change in salary, benefits and annual bonus earned for the chief executive officer compared to the percentage change of each of those components of pay of the average of a group of employees. The committee has selected salaried employees in mainland UK as this geography provides the most appropriate comparator.

	2017 £000	2016 £000	% change
Chief executive officer			
Salary	373	366	1.9%
Benefits	28	28	—
Bonus	359	231	55.4%
Average employees			
Salary	46	45	2.2%
Benefits	3	3	—
Bonus	5	3	66.6%

Relative importance of spend on pay

The following table shows the actual spend on pay for all employees relative to revenue and underlying operating profit (before JVs and associates):

	2017 £000	2016 £000	% change
Staff costs	67,675	60,596	11.7%
Revenue	262,224	239,360	9.6%
Underlying operating profit (before JVs and associates)	19,614	13,686	43.3%
Dividends	5,078	2,975	70.7%

Shareholder voting

The results below show the response to the 2016 AGM shareholder voting for the directors' 2016 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	223,453,327	96.7%
Against	7,605,335	3.3%
Total votes cast (for and against)	231,058,662	100%
Withheld votes	1,614,513	N/A
Total votes (including withheld votes)	232,673,175	N/A

The results below show the response to the 2014 AGM shareholder voting for the directors' 2014 remuneration policy:

	Total number of votes	% of votes cast
For	237,577,309	99.8%
Against	459,386	0.2%
Total votes cast (for and against)	238,036,695	100%
Withheld votes	1,710,960	N/A
Total votes (including withheld votes)	239,747,655	N/A

Implementation of policy for 2018

The executive directors' current salaries

The salaries of the executive directors will be reviewed in October 2017 and backdated to July 2017. Increases will be set in the context of overall salary increases for the wider workforce.

The executive directors' salaries at the start of the 2018 financial year are as follows:

	£
Ian Lawson	377,959
Ian Cochrane	296,877
Alan Dunsmore*	325,000
Derek Randall	244,143

Benefits and pension

All executive directors will be entitled to a car allowance of £15,000 (chief executive officer: £18,000), a fuel allowance, life insurance cover and medical insurance. A pension contribution of £50,000 will be offered to each executive director, with the exception of Ian Lawson who will be offered 20 per cent of basic salary.

*Alan Dunsmore's current salary is for the role of acting chief executive officer since 28 March 2017 and was £251,253 immediately before that date.

Rewards for performance in 2018

Bonus

The annual bonus for 2018 will operate on the same basis as for 2017 and will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity, deferral and clawback provisions. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group.

The performance measures and weightings will be as follows:

Profit performance-based component — 80 per cent

The sliding scale range for bonus targets in 2018 is as follows:

Maximum bonus based on actual PBT versus budget

PBT % of budget	% of award
95 or below	—
100	50
120 or better	100

The committee believes that the budget PBT figures are commercially sensitive metrics and therefore are not disclosed at this time. Actual target figures will be disclosed on a retrospective basis when these sensitivities have been removed.

DIRECTORS' REMUNERATION REPORT

Other performance-based component — 20 per cent

AFR (accident frequency rate) will again be used throughout the Group†.

AFR is an industry-recognised and measurable target. The pre-set targets have not been disclosed due to commercial sensitivities. Actual target figures will be disclosed on a retrospective basis when these sensitivities have been removed.

† Whilst Derek Randall remains in India the AFR component of his bonus will be based on AFR (India).

Rewards for performance in 2018

PSP

It is the committee's current intention to grant PSP awards of 100 per cent of salary to the chief executive officer and the Group finance director and 75 per cent of salary to the chief operating officer and the JSSL managing director. This is consistent with last year and with the proposed new policy.

This year we will set a performance condition for a three-year period commencing on 1 April 2017 and ending on 31 March 2020. These targets reflect the continuing expected recovery of profitability, recognising that market conditions remain challenging in many areas. At the lower threshold, below which no awards will vest, we have set a target EPS equivalent to PBT of £25.0m. If this level is achieved, 25 per cent of the shares granted will vest. At the higher end, we have set a target EPS equivalent to PBT of £29.5m. If this is achieved, 100 per cent of the shares granted will vest. Vesting at EPS levels between the lower and upper thresholds will be calculated by linear interpolation.

This represents an increase in the lower vesting threshold of £6.4m (34 per cent) and in the threshold at which maximum vesting takes place of £5.5m (23 per cent). When setting this target range the committee considered a number of reference points including internal financial forecasts, external analyst consensus, the base EPS and a broad view of the wider construction industry. This reflects, in the view of the committee, a realistic performance range whilst maintaining the targets at an appropriately stretching level. They will require management to deliver strong, sustainable performance over the period without encouraging undue risk-taking and in the context of the market environment are considered more challenging than targets set for prior awards.

How will the non-executive directors be paid in the 2018 financial year?

The fees for the chairman and non-executive directors will be as follows:

£	**2018**	2017
Chairman	**175,000***	100,000
Basic fee for other non-executive directors	**40,000**	40,000
Additional fee for SID role	**5,000**	5,000
Additional fee for chairman of audit and remuneration committees	**5,000**	5,000

*A review of fees for the chairman concluded that the previous fee level of £100,000 per annum was materially below market and we concluded that this should rise to £125,000. Furthermore, given the recent management changes implemented for the duration of Ian Lawson's absence through ill-health, we increased John Dodds' remuneration to £175,000 for the duration of his temporary appointment as executive chairman. Both increases were effective from 1 April 2017.

Approval

This report was approved by the board of directors and signed on behalf of the board.

Alun Griffiths
Chairman of the remuneration committee
14 June 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the board

John Dodds
Executive chairman
14 June 2017

Alan Dunsmore
Acting chief executive officer
14 June 2017

OUR FINANCIALS

Our financials — Group

Our financials — Company


SCANIA

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Severfield plc for the year ended 31 March 2017 set out on pages 109 to 145 and 147 to 153. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview		
Materiality: Group financial statements as a whole		£900,000 (2016: £650,000) 5.0% (2016: 4.9%) of Group profit before tax (2016: profit before tax, normalised to exclude non-underlying items)
Coverage		98% (2016: 99%) of Group profit before tax
Risks of material misstatement		**vs 2016**
Recurring risks	Carrying value of construction contracts balance, and revenue and profit recognition in relation to construction contracts	←→
	Carrying value of goodwill and investment in Indian joint venture	←→

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Carrying value of construction contracts balance, revenue and profit recognition in relation to construction contracts Revenue: £262.2m (2016: 239.4m) Construction contacts: £59.1m (2016: £44.5m) *Refer to page 75 (audit committee report), pages 116 and 121 (accounting policies) and note 16 (financial disclosure).*	**Subjective estimate** The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract balance as well as the revenue and profit recognised are based on estimates of costs to complete and level of unagreed variations and judgement as to the recoverability of those variations. Estimated contract costs, and as a result revenues, can be affected by a variety of uncertainties that depend on the outcome of future events resulting in revisions throughout the contract period.	Our procedures included: • **Our control assessment:** Testing the Group's controls over the contract outcome evaluations (contract valuation) through inspection of a sample of available meeting minutes throughout the year and subsequent to the year-end. At these meetings the Group reviews performance on a contract-by-contract basis with a key focus on costs to date, costs to complete, forecasted margin, certified work to date and agreed and unagreed variations. We assessed if the appropriate individuals attended the meetings and that the estimated final contract price and costs to complete forecasts for all contracts were discussed, challenged and the contract outcome evaluations updated as appropriate. • **Accounting analysis:** Identifying contracts with risk indicators including: low margin or loss-making contracts, high values of unagreed variations and large carrying value of amounts receivable on contracts. For these contracts we agreed the year-end construction contract balance to the cash recovered post period end and considered the work certified to date. • **Accounting analysis:** Challenging the Group in respect of construction contract balances in the sample identified, where cash has not been received or work has not been certified post year-end, by obtaining correspondence with the clients to corroborate the position. • **Accounting analysis:** Assessing the forecasted cost to complete in the sample identified by considering contract performance and costs incurred post year-end along with discussions and challenge of contract managers who are responsible for the contract. • **Retrospective review:** Assessing the forecasting accuracy of contract margins by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved.

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc only

2. Our assessment of risks of material misstatement continued

	The risk	Our response
Carrying value of goodwill and investment in Indian joint venture Goodwill: £54.7m (2016: £54.7m) Investment in Indian joint venture: £4.6m (2016: £4.5m) *Refer to page 75 (audit committee report), pages 114 to 122 (accounting policies) and notes 11 and 14 (financial disclosure)*	**Subjective valuation** The carrying value of goodwill depends on assumptions of future financial performance which inherently contain an element of judgement and uncertainty. In addition, the investment in the joint venture is at risk of impairment due to its recent performance. Significant areas of judgement include sales growth rates, operating margins and the discount rate applied to future cash flows.	Our procedures included: • **Data testing:** Considering the Group's impairment model for integrity and internal consistency with board approved budgets and forecast. • **Benchmarking assumptions:** We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected growth and discount rates. • **Accounting analysis:** Performing sensitivity analysis on key assumptions to understand their impact on headroom. • **Retrospective review:** Considering the Group's historical budgeting accuracy, by assessing actual performance against budget. • **Assessing transparency:** We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and investment in the joint venture.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £900,000 (2016: £650,000), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0 per cent (2016: 4.9 per cent of Group profit before tax, normalised to exclude non-underlying items).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £45,000 (2016: £32,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six (2016: six) reporting components, we subjected five (2016: five) to full scope audits for Group purposes and one (2016: one) was subject to procedures at a Group level.

The work on one of the six components (2016: one of six) was performed by component auditors and the rest by the Group team.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team also approved the component materialities ranging from £320,000–£675,000 (2016: £320,000–£400,000) having regard to the mix of size and risk profile of the Group across the components.

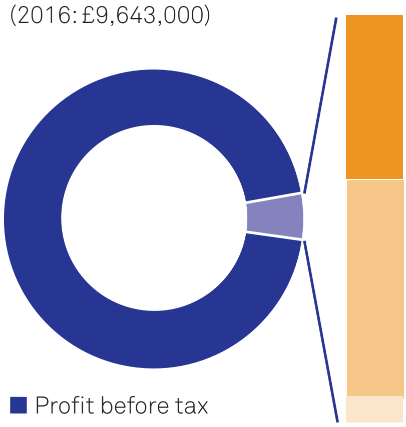
The Group team visited one component location in India and held meetings with the component audit team. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors.

Profit before tax

£18,055,000
(2016: £9,643,000)

Materiality

£900,000 (2016: £650,000)



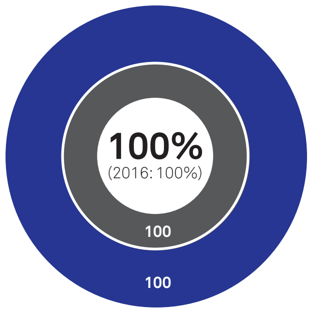
■ Profit before tax
■ Group materiality

£900,000
Whole financial statements materiality (2016: £650,000)

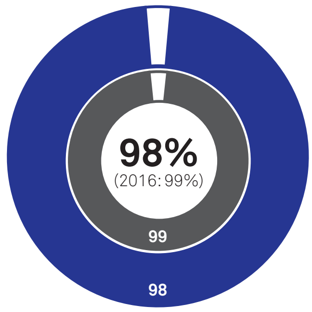
£675,000
Range of materiality at six components
(£675,000 – £320,000)
(2016: £400,000 – £320,000)

£45,000
Misstatements reported to the audit committee
(2016: £32,500)

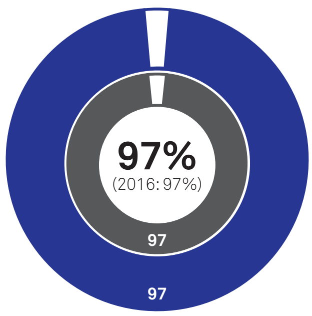
Group revenue



Group profit before tax



Group total assets



■ Full scope for Group audit purposes 2017
■ Full scope for Group audit purposes 2016
□ Residual components

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc only

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' viability statement on page 41, concerning the principal risks, their management, and based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 31 March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the audit committee report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 41 and 80, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 67 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Adrian Stone (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered accountants
One Sovereign Square
Sovereign Street
Leeds
LS1 4DA
14 June 2017

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2017

	Note	Underlying 2017 £000	Non-underlying 2017 £000	Total 2017 £000	Underlying 2016 £000	Non-underlying 2016 £000	Total 2016 £000
Continuing operations							
Revenue	3	**262,224**	**—**	**262,224**	239,360	—	239,360
Operating costs	4	**(242,610)**	**(1,790)**	**(244,400)**	(225,674)	(3,568)	(229,242)
Operating profit before share of results of JVs and associates		**19,614**	**(1,790)**	**17,824**	13,686	(3,568)	10,118
Share of results of JVs and associates	14	**457**	**—**	**457**	(230)	—	(230)
Operating profit		**20,071**	**(1,790)**	**18,281**	13,456	(3,568)	9,888
Net finance expense	7	**(226)**	**—**	**(226)**	(245)	—	(245)
Profit before tax		**19,845**	**(1,790)**	**18,055**	13,211	(3,568)	9,643
Taxation	8	**(3,306)**	**580**	**(2,726)**	(2,280)	1,237	(1,043)
Profit for the year attributable to the equity holders of the parent		**16,539**	**(1,210)**	**15,329**	10,931	(2,331)	8,600
Earnings per share:							
Basic	10	**5.53p**	**(0.40p)**	**5.13p**	3.67p	(0.78p)	2.89p
Diluted	10	**5.49p**	**(0.40p)**	**5.09p**	3.65p	(0.78p)	2.87p

Further details of non-underlying items are disclosed in note 5 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2017

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Actuarial (loss)/gain on defined benefit pension scheme*	29	**(7,412)**	1,300
Losses taken to equity on cash flow hedges	23	**(93)**	—
Reclassification adjustments on cash flow hedges	23	**110**	—
Tax relating to components of other comprehensive income*	19	**1,071**	(353)
Other comprehensive income for the year		**(6,324)**	947
Profit for the year from continuing operations		**15,329**	8,600
Total comprehensive income for the year attributable to equity holders of the parent		**9,005**	9,547

* These items will not be subsequently reclassified to the consolidated income statement.

CONSOLIDATED BALANCE SHEET

At 31 March 2017

	Note	At 31 March 2017 £000	At 31 March 2016 £000
Assets			
Non-current assets			
Goodwill	11	**54,712**	54,712
Other intangible assets	12	**1,574**	4,480
Property, plant and equipment	13	**78,909**	77,362
Interests in JVs and associates	14	**12,068**	11,611
Deferred tax asset	19	**1,029**	1,100
		148,292	149,265
Current assets			
Inventories	15	**7,750**	5,294
Trade and other receivables — due after one year £1,775 (2016: £1,099)	17	**66,398**	50,742
Derivative financial instruments	20	**109**	—
Cash and cash equivalents	20	**32,849**	19,033
		107,106	75,069
Total assets		**255,398**	224,334
Liabilities			
Current liabilities			
Trade and other payables	18	**(75,673)**	(55,311)
Financial liabilities — derivatives	20	**—**	(830)
Financial liabilities — finance leases	20	**(180)**	(180)
Current tax liabilities		**(2,862)**	(1,911)
		(78,715)	(58,232)
Non-current liabilities			
Retirement benefit obligations	29	**(21,414)**	(14,602)
Financial liabilities — finance leases	20	**(229)**	(409)
Deferred tax liabilities	19	**(883)**	(2,885)
		(22,526)	(17,896)
Total liabilities		**(101,241)**	(76,128)
Net assets		**154,157**	148,206
Equity			
Share capital	22	**7,471**	7,437
Share premium		**85,702**	85,702
Other reserves	23	**3,710**	2,300
Retained earnings		**57,274**	52,767
Total equity		**154,157**	148,206

The consolidated financial statements were approved by the board of directors on 14 June 2017 and signed on its behalf by:

John Dodds
Executive chairman

Alan Dunsmore
Acting chief executive officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016		**7,437**	**85,702**	**2,300**	**52,767**	**148,206**
Total comprehensive income for the year		**—**	**—**	**17**	**8,988**	**9,005**
Ordinary shares issued*		**34**	**—**	**—**	**—**	**34**
Equity settled share-based payments	21	**—**	**—**	**1,393**	**597**	**1,990**
Dividends paid		**—**	**—**	**—**	**(5,078)**	**(5,078)**
At 31 March 2017		**7,471**	**85,702**	**3,710**	**57,274**	**154,157**

* The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award which vested in June, September and November 2016.

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2015		7,437	85,702	1,250	46,195	140,584
Total comprehensive income for the year		—	—	—	9,547	9,547
Equity settled share-based payments	21	—	—	1,050	—	1,050
Dividends paid		—	—	—	(2,975)	(2,975)
At 31 March 2016		7,437	85,702	2,300	52,767	148,206

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2017

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Net cash flow from operating activities	24	**24,977**	23,888
Cash flows from investing activities			
Proceeds on disposal of land and buildings		**1,195**	273
Proceeds on disposal of other property, plant and equipment		**436**	395
Purchases of land and buildings		**(1,517)**	(122)
Purchases of other property, plant and equipment		**(5,442)**	(4,676)
Purchases of intangible fixed assets		**—**	(150)
Investment in JVs and associates		**(413)**	(4,113)
Net cash used in investing activities		**(5,741)**	(8,393)
Cash flows from financing activities			
Interest paid		**(162)**	(166)
Dividends paid		**(5,078)**	(2,975)
Repayment of obligations under finance leases		**(180)**	(205)
Net cash used in financing activities		**(5,420)**	(3,346)
Net increase in cash and cash equivalents		**13,816**	12,149
Cash and cash equivalents at beginning of year		**19,033**	6,884
Cash and cash equivalents at end of year		**32,849**	19,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

1. Significant accounting policies

General information

Severfield plc ('the Company') is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is provided on page 154. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 14 to 21. These financial statements are presented in sterling, which is the currency of the primary economic environment in which the Group operates.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below.

There were no new standards, interpretations or amendments to standards applied during the year ended 31 March 2017.

The following new or revised standards and interpretations issued by the International Accounting Standards Board (IASB) have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 April 2017.

Effective for the year ending 31 March 2018

- IAS 1 'Presentation of financial statements' – amendments relating to the disclosure initiative.
- IAS 7 'Statement of cash flows' – amendments relating to the IASB's disclosure initiative intended to provide information to help investors better understand changes in a company's debt.
- IAS 12 'Income taxes' – amendments relating to the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' – amendments relating to clarification of acceptable methods of depreciation and amortisation.
- 27 'Separate financial statements' – amendments relating to equity method in separate financial statements.
- IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' – amendments relating to sale or contribution of assets between an investor and its associate or joint venture (not yet EU endorsed).
- IFRS 11 'Joint Arrangements' – amendments relating to acquisitions of interests in joint operations.
- Annual improvements to IFRS 2012–2014 cycle.

Effective for the year ending 31 March 2019

- IFRS 2 'Share-based payment' – amendments clarifying how to account for certain types of share-based payment transactions.
- IFRS 9 'Financial instruments' – introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.
- IFRS 15 'Revenue from contracts with customers' – provides a single model for measuring and recognising revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. It supersedes all existing revenue requirements in IFRS.

Effective for the year ending 31 March 2020

- IFRS 16 'Leases' – provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed.

1. Significant accounting policies continued

IFRS 15

IFRS 15, the new revenue standard, will be effective for the Group's 2019 year-end. The Group is in the process of performing a detailed assessment of the impact of IFRS 15 to examine its potential impact on the timing of revenue recognition in relation to construction contracts. This assessment is expected to be completed in the first half of 2018.

IFRS 16

IFRS 16, the new leasing standard, will be effective for the Group's 2020 year-end and will require certain operating leases to be recognised on the balance sheet. The directors are in the process of assessing the potential impact of IFRS 16 on the Group's accounting for leases.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the consolidated financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the approval of the financial statements. For this reason the directors continue to adopt the going concern basis in preparing the consolidated financial statements.

The key factors considered by the directors in making the statement are set out within the financial review on pages 36 to 41.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to the reporting date each year. Control is achieved where the Company has the power over the investee, is exposed or has rights to variable return from its involvement with the investee and has the ability to use its power to affect its returns.

Where relevant, the results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-underlying items

Non-underlying items have been separately identified to provide a better indication of the Group's underlying business performance. They are not considered to be 'business as usual' items and have a varying impact on different businesses and reporting periods. They have been separately identified as a result of their magnitude, incidence or unpredictable nature.

Non-underlying items are presented as a separate column within their related consolidated income statement category. Their separate identification results in the calculation of an underlying profit measure in the same way as it is presented and reviewed by management.

Items that may give rise to classification as non-underlying include, but are not limited to, restructuring items, the amortisation of acquired intangible assets, significant rectification and remediation costs on completed contracts, movements in the valuation of derivative financial instruments and certain non-recurring legal and consultancy costs. Restructuring items include income and expenses arising from major Group restructuring activities including redundancy costs, onerous contract and lease provisions and asset gains and impairments. The Group has adopted hedge accounting during the year and, to the extent the hedge is effective, movements in the valuation of derivative financial instruments are recognised directly in other comprehensive income rather than as a non-underlying item.

Further details of non-underlying items are disclosed in note 5 to the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2017

1. Significant accounting policies continued

Investments in joint ventures and associates

An associated company is an entity over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

A joint venture is an entity over which the Group is in a position to exercise joint control. The Group has adopted the equity method of accounting (as discussed below) for joint ventures and associated companies (together 'JVs and associates'), in accordance with IFRS 11.

The results and assets and liabilities of JVs and associates are incorporated in these financial statements using the equity method of accounting unless it meets the exceptions described in IAS 28. Investments in JVs and associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of their net assets, less any impairment in the value of individual investments. Losses in excess of the Group's interest in those JVs and associates are not recognised unless, and only to the extent that, the Group has incurred legal or constructive obligations on their behalf.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

The consolidated income statement includes the Group's share of the JVs and associates' profit less losses while the Group's share of the net assets of the JVs and associates is shown in the consolidated balance sheet.

Goodwill

The Group recognises goodwill at cost less accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately as a loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisition is recognised immediately in the consolidated income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of sales taxes, rebates and discounts, after eliminating revenue within the Group.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Construction contracts

Revenue represents the gross value of work performed (including retentions) during the reporting period and is normally determined by qualified management assessment, taking into account customer certifications to date.

1. Significant accounting policies continued

The general principles for profit recognition are as follows:

- Revenues on contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably.
- Provision is made for total losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.
- Variations are included in forecast contract revenues when it is considered probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.
- Incentive payments are included in forecast contract revenues when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payment can be reliably measured.
- Claims receivable are recognised as income when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim, and the amount that it is probable will be accepted by the customer can be measured reliably.
- Rectification work which is reasonably foreseeable is provided for as a cost of the contract and taken into account when assessing its overall profitability. Claims for rectification arising after the end of a contract and which have not been provided for are recognised as losses as they arise.

When determining whether a contract's outcome can be estimated reliably, management considers a number of indicators including the stage of completion of the contract to provide assurance over the reliability of costs to complete, cumulative cash received and agreed certifications, the inherent risk in certain industry sectors and whether certain contract milestones have been satisfied.

All costs relating to contracts are recognised as expenses in the period in which they are incurred, except where they relate to future activity on a contract, in which case they are recognised as an asset provided it is probable that they will be recovered. Where the outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent that contract costs incurred are expected to be recovered.

Percentage of completion is determined by reference to the contract costs incurred to date (the proportion that estimated total contract costs are accounted for by contract costs incurred for work performed to date). Only those contract costs that reflect work performed are included in costs incurred to date.

Total expected contract costs are initially determined by the estimating function during the contract tender process. At launch, responsibility for the contract is handed over to the commercial function (consisting of qualified quantity surveyors) which, on an ongoing basis, reassesses the expected contract costs as the contract progresses, taking into account the risks identified in contract risk registers.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Regular monthly contract reviews form an integral part of the contract forecasting procedures.

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.

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

Property, plant and equipment acquired under finance leases are capitalised in the balance sheet at fair value and depreciated in accordance with the Group's accounting policy. The capital element of the leasing commitment is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

1. Significant accounting policies continued

Retirement benefit obligations

The Group operates two defined contribution pension schemes and costs of these schemes are charged to the income statement in the period in which they are incurred.

The Group has a defined benefit pension scheme which is now closed. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high quality corporate bond, less the fair value of the scheme assets.

The cost of providing benefits recognised within operating costs in the income statement and the defined benefit obligations is determined at the reporting date by independent actuaries, using the projected unit credit method.

Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit 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 the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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 liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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. These are determined based on future changes in tax rates that have been enacted rather than simply future changes that have been proposed but not enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

1. Significant accounting policies continued

Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are declared, appropriately authorised and no longer at the discretion of the Company.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, and plant and machinery are currently stated at cost in the balance sheet. Depreciation on buildings is included within operating costs.

Depreciation is provided on other property, plant and equipment to write off the cost of each asset over its estimated useful life at the following rates:

Freehold buildings	1 per cent straight-line
Long leasehold buildings	Shorter of 1 per cent straight-line or lease term
Plant and machinery	10 per cent straight-line
Fixtures, fittings and office equipment	10 per cent written down value
Computer equipment	20 per cent straight-line
Motor vehicles	25 per cent written down value
Site safety equipment	20 per cent straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is included within operating costs.

Intangibles

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets acquired through acquisitions arise as a result of applying IFRS 3, which requires the separate recognition of intangible assets from goodwill.

Other acquired intangible assets include software costs.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

	Amortisation period
Customer relationships	10 years
Brands	25 years
Know-how	10 years
Software costs	7 years

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

1. Significant accounting policies continued

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. 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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Trade receivables

Trade receivables are classified as loans and receivables, and therefore measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest over the relevant period.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

The Group issues equity settled share-based payments. These share-based payments are measured at fair value at the date of grant based on the Group's estimate of shares that will eventually vest. The fair value determined is then expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 21.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and, as appropriate, are discounted to present value where the effect is material.

1. Significant accounting policies continued

Derivative financial instruments and hedge accounting

The Group enters into certain foreign exchange forward contracts to manage its exposure to currency movements. Further details of derivative financial instruments are disclosed in note 20.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss, except where hedge accounting is used, provided the conditions specified by IAS 39 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IAS 39 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as cash flow hedges.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be recycled to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

2. Critical accounting judgements and estimates

The preparation of financial statements under IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Assumptions and estimates are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

The following items are those that management considers to be critical due to the level of judgement and estimation required:

Revenue and profit recognition

Recognition of revenue and profit is based on judgements made in respect of the ultimate profitability of a contract. Such judgements are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in work scope, the contractual terms under which the work is being performed, including the recoverability of any unagreed income from variations and the likely outcome of discussions on claims, costs incurred and external certification of the work performed.

Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

The Group has appropriate internal control procedures over the determination of each of the above variables to ensure that profit take as at the balance sheet date and the extent of future costs to contract completion are reasonably and consistently determined and subject to appropriate review and authorisation.

Impairment of goodwill and other non-current assets

Goodwill is tested at least annually for impairment, along with the intangible assets and other assets of the Group's cash-generating units. The Group's investment in its Indian joint venture has also been reviewed for impairment.

Determining whether goodwill or other non-current assets are impaired requires an estimation of the value in use of the business being tested for impairment and of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, taking into account the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process, and a suitable discount rate in order to calculate present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2017

2. Critical accounting judgements and estimates continued

The carrying amount of goodwill at the balance sheet date was £54,712,000 (2016: £54,712,000) and of intangible assets arising from acquisitions was £1,333,000 (2016: £3,953,000). The carrying value of the Group's investment in the Indian joint venture was £4,619,000 (2016: £4,468,000) at the balance sheet date.

Contingent liabilities

On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised only where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of contingent liabilities is made in note 27 unless the possibility of a loss arising is considered remote. These potential liabilities are subject to uncertain future events, may extend over several years and their timing may differ from current assumptions. Management applies its judgement in determining whether or not a liability on the balance sheet should be recognised or a contingent liability should be disclosed.

Retirement benefit obligations

The Group's defined benefit pension scheme has been valued in accordance with IAS 19 'Employee benefits'. The benefit obligation is calculated using a number of assumptions including increases in pension benefits, mortality rates and inflation and the future investment returns from the scheme's assets. The present value of the benefit obligations is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date.

Significant judgement is required in setting the criteria for the valuation of the liability. Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the difference between expected and actual returns on the scheme's assets are classified as actuarial gains and losses.

The defined benefit obligation recognised at the balance sheet date was £21,414,000 (2016: £14,602,000).

Of the items discussed above, revenue and profit recognition represents the key source of estimation uncertainty.

3. Revenue and segmental analysis

Revenue

An analysis of the Group's revenue is as follows:

	2017 £000	2016 £000
Revenue from construction contracts	**262,224**	239,360
Total revenue	**262,224**	239,360
Other operating income (note 4)	**671**	666
Interest received (note 7)	**15**	16
Total income	**262,910**	240,042

Segmental results

Following the adoption of IFRS 8, the Group has identified its operating segments with reference to the information regularly reviewed by the executive committee (the chief operating decision maker ('CODM')) to assess performance and allocate resources. On this basis the CODM has identified one operating segment (construction contracts) which in turn is the only reportable segment of the Group.

The constituent operating segments have been aggregated as they have businesses with similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics. Given that only one operating and reporting segment exists, the remaining disclosure requirements of IFRS 8 are provided within the consolidated income statement and balance sheet.

Revenues by product group

All revenue is derived from construction contracts and related assets.

3. Revenue and segmental analysis continued

Geographical information

The Group's revenue from external customers is detailed below:

	2017 £000	2016 £000
Revenue by destination:		
United Kingdom	**249,034**	230,614
Republic of Ireland and mainland Europe	**13,190**	8,746
	262,224	239,360

All revenue originated from the United Kingdom and all non-current assets of the Group are located in the United Kingdom.

Information about major customers

Included in Group revenue is £49,301,000 relating to one major customer, which individually contributed more than 10 per cent of Group revenue in the year ended 31 March 2017. In the prior year, Group revenue included £37,388,000 and £24,433,000 relating to two major customers, which individually contributed more than 10 per cent of Group revenue.

4. Operating costs

	2017 £000	2016 £000
Raw materials and consumables (including subcontractor costs)	**138,764**	127,027
Staff costs (note 6)	**67,675**	60,596
Other operating charges	**29,986**	31,863
Amortisation of other intangible assets (note 12)	**286**	138
Operating lease expense:		
— plant and machinery	**1,316**	1,354
— other	**1,671**	1,669
Depreciation (note 13):		
— owned property, plant and equipment	**3,483**	3,593
— property, plant and equipment held under finance leases	**100**	100
Other operating income	**(671)**	(666)
Operating costs before non-underlying items	**242,610**	225,674
Non-underlying items (note 5)	**1,790**	3,568
	244,400	229,242
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**17**	17
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	**147**	143
— audit-related assurance services	**15**	15
— other assurance services	**8**	25

Fees payable to KPMG LLP (2016: KPMG LLP) and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

In addition to the non-audit fees above, the Group incurred non-audit fees of £47,000 (2016: £52,000) in respect of other assurance services provided to its Indian joint venture.

Details of the Group's policy on the use of the auditor for non-audit services, the reason why the auditor was used and how the auditor's independence and objectivity were safeguarded, are set out in the audit committee report on page 76. No services were performed pursuant to contingent fee arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

5. Non-underlying items

	2017 £000	2016 £000
Amortisation of acquired intangible assets (note 12)	**2,620**	2,620
Movement in fair value of derivative financial instruments	**(830)**	948
Non-underlying items before tax	**1,790**	3,568
Tax on non-underlying items	**(580)**	(1,237)
Non-underlying items after tax	**1,210**	2,331

The basis for stating results on an underlying basis is set out on page 5. The board believes that non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying performance of the Group. Their separate identification results in the calculation of an underlying profit measure, which is the same as that presented and reviewed by management. Accordingly, adjusted performance measures have been used throughout the annual report to describe the Group's underlying performance.

Amortisation of acquired intangible assets represents the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007. These relationships will be fully amortised during the next financial year.

A non-cash profit on derivative financial instruments of £830,000 was recognised in relation to the movement in fair values of foreign exchange contracts, as a result of the underlying contracts maturing during the year, since these were treated as non-underlying in the prior year.

The Group has adopted hedge accounting during the year for all material foreign currency hedging positions (cash flow hedges), thereby mitigating the impact of fair value changes in the income statement since, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be recycled to the income statement. In accordance with the Group's revised accounting policy, these recycled gains or losses together with any movement in fair values associated with ineffective hedging positions will be treated as a component of underlying profit rather than separately disclosed as 'non-underlying items'.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 92.

The average number of persons employed by the Group (including executive directors) during the year was:

	2017 Number	2016 Number
Production and site	**1,215**	1,204
Sales and administration	**112**	98
	1,327	1,302

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**59,209**	52,825
Social security costs	**6,500**	5,724
Other pension costs	**1,966**	2,047
	67,675	60,596

Employee remuneration costs under share-based payment schemes are set out in note 21.

7. Net finance expense

	2017 £000	2016 £000
Finance income	**(15)**	(16)
Finance expense	**241**	261
	226	245

8. Taxation

a) The taxation charge comprises:

	2017 £000	2016 £000
Current tax		
UK corporation tax	**(3,465)**	(1,607)
Adjustments to prior years' tax provisions	**(121)**	(127)
	(3,586)	(1,734)
Deferred tax (note 19)		
Current year credit/(charge)	**577**	(159)
Impact of reduction in future years' tax rates	**222**	523
Adjustments to prior years' provisions	**61**	327
	860	691
	(2,726)	(1,043)

b) Tax reconciliation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2017 £000	2016 £000
Profit before tax	**18,055**	9,643
Tax on profit on ordinary activities at standard UK corporation tax rate	**(3,611)**	(1,929)
Expenses not deductible for tax purposes	**(124)**	(63)
Tax effect of share of results of JVs and associates	**91**	(53)
Unprovided deferred tax movement	**756**	279
Adjustments to prior years' provisions	**(60)**	200
Rate differences	**222**	523
	(2,726)	(1,043)

Corporation tax was calculated at 20 per cent (2016: 20 per cent) of the estimated taxable result for the year.

The unprovided deferred tax movement represents the recognition of previously unrecognised tax losses (see note 19).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2017

9. Dividends

	2017 £000	2016 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2016 of 1.0p per share (2015: 0.5p)	**2,985**	1,487
Interim dividend for the year ended 31 March 2017 of 0.7p per share (2016: 0.5p)	**2,093**	1,487
	5,078	2,975

The directors are recommending a final dividend in respect of the financial year ended 31 March 2017 of 1.6p per share, which will amount to an estimated dividend payment of £4,782,000. If approved by the shareholders at the annual general meeting on 6 September 2017, this dividend will be paid on 15 September 2017 to shareholders who are on the register of members at 18 August 2017. This dividend is not reflected in the balance sheet as at 31 March 2017 as it is subject to shareholder approval.

10. Earnings per share

Earnings per share is calculated as follows:

	2017 £000	2016 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	**15,329**	8,600
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	**16,539**	10,931

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**298,855,911**	297,503,587
Effect of dilutive potential ordinary shares	**2,218,914**	1,715,818
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**301,074,825**	299,219,405
Basic earnings per share	**5.13p**	2.89p
Underlying basic earnings per share	**5.53p**	3.67p
Diluted earnings per share	**5.09p**	2.87p
Underlying diluted earnings per share	**5.49p**	3.65p

Reconciliation of earnings	2017 £000	2016 £000
Net profit attributable to equity holders of the parent company	**15,329**	8,600
Non-underlying items	**1,210**	2,331
Underlying net profit attributable to equity holders of the parent company	**16,539**	10,931

Further details of non-underlying items are provided in note 5.

11. Goodwill

The goodwill balance was created on the following acquisitions:

	£000
On the Fisher Engineering acquisition in 2007	47,980
On the Atlas Ward acquisition in 2005	6,571
On the Watson Steel Structures acquisition in 2001	161
	54,712

All of the acquisitions above are included in one reported segment (construction contracts) and the cash flows of the businesses are closely related. Testing for impairment is performed at the operating segment level, which is the level at which management monitors goodwill for internal purposes.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired.

The recoverable amounts of goodwill are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations on future changes in the market.

The Group prepares forecast cash flows based on the following year's budget, approved by the directors, together with cash flows based on projections for the following two years which are derived from the Group's strategic plan. After this period, cash flows have been extrapolated using a growth rate of 1.5 per cent (2016: 1.5 per cent) which does not exceed the long-term growth rate for the relevant markets. The cash flow forecasts have been discounted using a pre-tax discount rate of 10 per cent (2016: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2017.

Management has run a number of sensitivities when performing the impairment reviews, including a reduction in operating margin and an increased discount rate. None of those scenarios resulted in an impairment to goodwill. Management considers that no reasonably possible change in the key assumptions would cause the goodwill to fall below its carrying value at 31 March 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2017

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
Cost			
At 1 April 2015	39,000	883	39,883
Additions	—	150	150
At 1 April 2016 and 31 March 2017	**39,000**	**1,033**	**40,033**
Amortisation			
At 1 April 2015	32,427	368	32,795
Charge for the year	2,620	138	2,758
At 1 April 2016	35,047	506	35,553
Charge for the year	2,620	286	2,906
At 31 March 2017	**37,667**	**792**	**38,459**
Carrying amount			
At 31 March 2017	**1,333**	**241**	**1,574**
At 31 March 2016	3,953	527	4,480

The intangible assets acquired on acquisition arise as a result of applying IFRS 3, which requires the separate recognition of acquired intangibles from goodwill. The Group's acquired intangible assets are as follows:

	Customer relationships £000	Brands £000	Order book £000	Know-how £000	Total £000
Cost					
At 1 April 2015 and 31 March 2017	**25,800**	**3,200**	**9,600**	**400**	**39,000**
Amortisation					
At 1 April 2015	19,327	3,200	9,600	300	32,427
Charge for the year	2,580	—	—	40	2,620
At 1 April 2016	21,907	3,200	9,600	340	35,047
Charge for the year	2,580	—	—	40	2,620
At 31 March 2017	**24,487**	**3,200**	**9,600**	**380**	**37,667**
Net book value					
At 31 March 2017	**1,313**	**—**	**—**	**20**	**1,333**
At 31 March 2016	3,893	—	—	60	3,953

Amortisation of acquired intangible assets is included in the consolidated income statement as part of operating costs and is classified as non-underlying items (see note 5).

13. Property, plant and equipment (including investment property)

	Freehold and long leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 April 2015	66,031	35,790	3,227	955	106,003
Additions	122	3,989	783	91	4,985
Disposals	(275)	(1,810)	—	(589)	(2,674)
At 1 April 2016	65,878	37,969	4,010	457	108,314
Additions	1,517	4,702	641	98	6,958
Disposals	(1,526)	(1,676)	(40)	(264)	(3,506)
At 31 March 2017	**65,869**	**40,995**	**4,611**	**291**	**111,766**
Accumulated depreciation					
At 1 April 2015	3,971	23,353	1,423	650	29,397
Charge for the year	525	2,755	322	91	3,693
Disposals	(12)	(1,658)	—	(468)	(2,138)
At 1 April 2016	4,484	24,450	1,745	273	30,952
Charge for the year	530	2,747	235	71	3,583
Disposals	(60)	(1,367)	(40)	(211)	(1,678)
At 31 March 2017	**4,954**	**25,830**	**1,940**	**133**	**32,857**
Carrying amount					
At 31 March 2017	**60,915**	**15,165**	**2,671**	**158**	**78,909**
At 31 March 2016	61,394	13,519	2,265	184	77,362

The net book value of the Group's plant and machinery includes £702,000 (2016: £802,000) of assets held under finance leases.

14. Interests in JVs and associates

The Group has an interest in an associated company and two joint ventures as follows:

Associated companies:	Holding %	Class of capital
Fabsec Limited — development of fire beam	25.0	Ordinary
Joint ventures:		
JSW Severfield Structures Limited — structural steelwork serving the Indian market	50.0	Ordinary
Composite Metal Flooring Limited — manufacturer of cold rolled metal products	50.0	Ordinary

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

14. Interests in JVs and associates continued

JSW Severfield Structures Limited is registered in India. During the year, the Group did not make any further investments in the joint venture (2016: £nil). As a result of the continued close to break-even profit position of the Indian joint venture, the Group's investment in the Indian joint venture of £4,619,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2019 to 2021. The calculations assume a long-term growth rate of 1.5 per cent (2016: 1.5 per cent) from 2022 onwards and a pre-tax discount rate of 10 per cent (2016: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2017 (2016: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment.

On 16 November 2015, the Group completed its investment in a 50 per cent share of Composite Metal Flooring Limited ('CMF') which has been accounted for as a joint venture. The total consideration for the investment is £7,039,000, which consists of an initial payment of £4,126,000 (including transaction costs of £126,000), an additional payment of £413,000 (made in early 2017) following agreement of the final working capital position and a further £2,500,000 which is payable over the next five years subject to certain conditions.

	Goodwill £000	Share of net assets £000	Total £000
At 1 April 2015	—	4,802	4,802
Net assets acquired	5,326	1,713	7,039
Losses retained	—	(230)	(230)
At 1 April 2016	5,326	6,285	11,611
Profits retained	—	457	457
At 31 March 2017	**5,326**	**6,742**	**12,068**

The Group's share of the retained profit for the year of JVs and associates is made up as follows:

Share of results	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	Total £000
2017	**—**	**151**	**306**	**457**
2016	—	(319)	89	(230)

Summarised financial information in respect of the Group's JVs and associates is as follows:

	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	**2017 £000**	2016 £000
Current assets	1,053	43,422	6,188	**50,663**	32,202
Non-current assets	227	27,026	4,125	**31,378**	27,550
Current liabilities	(19)	(56,240)	(5,392)	**(61,651)**	(37,415)
Non-current liabilities	(2,239)	(6,094)	(717)	**(9,050)**	(12,677)
Net assets	**(978)**	**8,114**	**4,204**	**11,340**	**9,660**
Group's share of net assets	(245)	4,057	2,102	**5,914**	5,043
Revenue	195	41,532	15,280	**57,007**	44,065
Profit/(loss) after tax	—	302	611	**913**	(460)
Group's share of profit/(loss) after tax	**—**	**151**	**306**	**457**	**(230)**

There were no contingent liabilities or capital commitments (2016: none) associated with the Group's JVs and associates.

15. Inventories

	2017 £000	2016 £000
Raw materials and consumables	**4,461**	3,233
Work-in-progress	**3,289**	2,061
	7,750	5,294

16. Construction contracts

	2017 £000	2016 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in trade and other receivables	**59,084**	45,013
Amounts due to construction contract customers included in trade and other payables	**(5,737)**	(500)
	53,347	44,513
Contract costs incurred plus recognised profits less recognised losses to date	**360,241**	288,444
Less: progress billings received	**(306,894)**	(243,931)
	53,347	44,513

17. Trade and other receivables

	2017 £000	2016 £000
Amounts due from construction contract customers (note 16):		
— Current amounts receivable in respect of progress billings	**53,861**	40,697
— Retentions due within one year	**3,448**	3,217
— Retentions due after one year	**1,775**	1,099
Total	**59,084**	45,013
Other receivables	**260**	517
Prepayments and accrued income	**4,696**	4,611
Amounts due from JVs and associates	**2,358**	601
	66,398	50,742

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 60 days (2016: 52 days). No interest is charged on receivables.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Before accepting any new customer, the Group uses an external credit rating agency to assess the potential customer's credit quality and defines credit limits by customer. It is Group policy that adequate credit insurance is taken out on all customers to manage the exposure that may arise as the contractual work proceeds. Accordingly, no bad debt provisions are held or expenses incurred. The Group's executive risk committee reviews situations where adequate credit insurance on the Group's customers cannot be purchased in the present economic climate as required.

Due to the nature of the business involving applications for payment, contractually overdue amounts within trade and other receivables are limited to retentions. The Group has rigorous procedures in place for monitoring and obtaining settlement of retentions in a prompt manner.

Overdue retentions at 31 March 2017 were £580,000 (2016: £490,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

18. Trade and other payables

	2017 £000	2016 £000
Trade creditors	**42,532**	30,650
Other taxation and social security	**7,215**	6,694
Other creditors and accruals	**20,189**	17,467
Payments in advance (note 16)	**5,737**	500
	75,673	55,311

Other creditors and accruals in the current and prior years include the outstanding purchase consideration for CMF of £2,500,000 (2016: £2,500,000).

The directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period taken for trade purchases, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 37 days (2016: 43 days).

19. Deferred tax assets and liabilities

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	2017 £000	2016 £000
Deferred tax liabilities	**(5,547)**	(6,301)
Deferred tax assets	**5,693**	4,516
	146	(1,785)

Deferred tax is disclosed in the balance sheet as follows:

	2017 £000	2016 £000
Deferred tax liabilities	**(883)**	(2,885)
Deferred tax asset — trading losses	**1,029**	1,100
	146	(1,785)

	Excess capital allowances £000	Acquired intangible assets £000	Retirement benefit obligations £000	Trading losses £000	Other timing differences £000	Total £000
At 1 April 2015	(6,301)	(1,314)	3,294	1,870	328	(2,123)
Credit/(charge) to income statement	179	524	(116)	(727)	308	168
Effect of change in tax rate	572	39	(21)	(43)	(24)	523
(Charge)/credit to equity	—	—	(384)	—	31	(353)
At 1 April 2016	(5,550)	(751)	2,773	1,100	643	(1,785)
Credit/(charge) to income statement	(9)	498	(102)	(71)	322	638
Effect of change in tax rate	265	—	(43)	—	—	222
Credit to equity	—	—	1,011	—	60	1,071
At 31 March 2017	**(5,294)**	**(253)**	**3,639**	**1,029**	**1,025**	**146**

19. Deferred tax liabilities continued

The Finance Act 2016 included provisions to reduce the rate of corporation tax from 20 per cent to 19 per cent with effect from 1 April 2017 and to 17 per cent with effect from 1 April 2020. As these changes were substantively enacted on 6 September 2016, they have been used to calculate closing deferred tax balances as appropriate. The tax losses on which a deferred tax asset has been recognised do not expire. Deferred tax assets are recognised for tax loss carry-forwards to the extent that the utilisation of the related tax benefit through future taxable profits is probable. In determining the amounts of deferred tax assets to be recognised, management uses historical profitability information and, if relevant, forecasted operating results, based on approved budgets and forecasts, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations.

At the reporting date the Group had unrecognised tax losses from operations of £nil (2016: £3,947,000).

20. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while optimising the return to stakeholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The board reviews the capital structure of the Group on a semi-annual basis. As part of this review, it considers the cost of capital and the risks associated with each class of capital. The Group monitors capital using the following indicators:

i) Gearing ratio

	2017 £000	2016 £000
Cash and cash equivalents	**32,849**	19,033
Unamortised debt arrangement fees	**146**	210
Finance leases	**(409)**	(589)
Net funds	**32,586**	18,654
Equity	**154,157**	148,206
Net debt to equity ratio	**N/A**	N/A

Equity includes all capital and reserves of the Group attributable to equity holders of the parent. There are no externally imposed capital requirements.

ii) Return on capital employed

Underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity after adding back retirement benefit obligations (net of tax), acquired intangible assets and net funds.

	2017 £000	2016 £000
Underlying operating profit (before JVs and associates)	**19,614**	13,686
Share of results of JVs and associates	**457**	(230)
Underlying operating profit	**20,071**	13,456
Capital employed:		
Shareholders' equity	**154,157**	148,206
Cash and cash equivalents	**(32,849)**	(19,033)
Borrowings	**409**	589
Net funds (for ROCE purposes)	**(32,440)**	(18,444)
Retirement benefit obligations (net of deferred tax) (note 29)	**17,775**	11,829
Acquired intangible assets (note 12)	**(1,333)**	(3,953)
	138,159	137,638
Average capital employed	**137,899**	139,372
Return on capital employed	**14.6%**	9.7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

20. Financial instruments continued

Categories of financial instruments

	Carrying value	
	2017 £000	2016 £000
Financial assets		
Cash and cash equivalents	**32,849**	19,033
Amounts due from construction contract customers (note 16)	**59,084**	45,013
Derivative financial instruments	**109**	—
Unamortised debt arrangement fees	**146**	210
Financial liabilities		
Trade creditors (note 18)	**(42,532)**	(30,650)
Other creditors and accruals (note 18)	**(20,189)**	(17,467)
Derivative financial instruments	**—**	(830)
Finance leases	**(409)**	(589)

The Group's financial instruments consist of borrowings, cash, unamortised debt arrangement fees, items that arise directly from its operations and derivative financial instruments. Cash and cash equivalents, trade and other receivables and trade and other payables generally have short terms to maturity. For this reason their carrying values approximate to fair value. The Group's borrowings relate principally to amounts drawn down against its revolving credit facility, the carrying amounts of which approximate to their fair values by virtue of being floating rate instruments.

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are the only instruments valued at fair value through profit or loss, and are valued as such on initial recognition. These relate to foreign currency forward contracts measured using quoted forward exchange rates and yield curves matching the maturities of the contracts. These derivative financial instruments are categorised as level 2 financial instruments. Except for derivative financial instruments, the carrying amounts of financial assets and financial liabilities are recorded at amortised cost in the consolidated financial statements.

General risk management principles

The board has overall responsibility for the establishment and oversight of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic, operational and financial risks of the Group is in place to ensure appropriate risk management of its operations. Internal control and risk management systems are embedded in the operations of the divisions.

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the board of directors.

20. Financial instruments continued

Credit risk

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors. The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by the general macroeconomic conditions. The Group does not have significant concentration of risk in respect of amounts due from construction contract customers at the reporting date with them being spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 March 2017 were £5,223,000 (2016: £4,316,000).

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts. In addition, before accepting any new customer adequate credit insurance is taken out as reported in note 17. Where credit insurance is difficult to acquire, the executive risk committee determines the appropriate exposure for the Group to take with a customer.

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with customers so as to ensure that potential issues that could lead to the non-payment of retentions are addressed as soon as they are identified.

Amounts outstanding from construction contract customers are due with reference to the payment terms for each particular contract but the majority would be receivable within four months from the end of the reporting period. Amounts due for settlement after 12 months are disclosed in note 17.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the board.

The Group generates cash through its operations and aims to manage liquidity by ensuring that it will always have sufficient financing facilities to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Forecast and actual cash flow is continuously monitored.

The Group has a £25,000,000 revolving credit facility ('RCF') with HSBC Bank plc and Yorkshire Bank which matures in July 2019.

This facility includes an accordion facility of £20,000,000, which allows the Group to increase the aggregate available borrowings to £45,000,000 at the Group's request. The facility is subject to certain covenants including the cover of interest costs and the ratio of net debt to EBITDA.

As at 31 March 2017, £25,000,000 (2016: £25,000,000) of this facility was not drawn but available. Up to £10,000,000 of this facility is available by way of an overdraft.

In accordance with IFRS 7, the following tables detail the Group's remaining contractual maturity for its financial liabilities.

		Maturity analysis				
	Carrying value £000	Less than 3 months £000	3 months to 1 year £000	1–2 years £000	2–5 years £000	Total £000
Liabilities – 2017						
Trade and other payables	**62,721**	**58,092**	**3,892**	**549**	**188**	**62,721**
Financial liabilities — finance leases	**409**	**45**	**135**	**180**	**49**	**409**
	63,130	**58,137**	**4,027**	**729**	**237**	**63,130**
Liabilities – 2016						
Trade and other payables	48,117	45,201	2,006	730	180	48,117
Financial liabilities — finance leases	589	45	135	180	229	589
Financial liabilities — derivatives	830	830	—	—	—	830
	49,536	46,076	2,141	910	409	49,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

20. Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in credit risks described above, in foreign currency exchange rates and interest rates. The Group has entered into certain derivative financial instruments to manage its exposure to foreign currency risk.

Market risk exposures are monitored and are supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group seeks to minimise the effects of currency risks by using derivative financial instruments when appropriate to hedge these risk exposures against contracted sales. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Euro	**(2,077)**	(427)	**5,189**	1,132
US dollar	**—**	(3)	**19**	117
	(2,077)	(430)	**5,208**	1,249

Foreign currency sensitivity analysis

The Group is only significantly exposed to the euro and US dollar.

The following table details the Group's sensitivity to a 10 per cent increase and decrease in sterling against the relevant foreign currencies. Ten per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and derivative financial instruments, and adjusts their translation at the year-end for a 10 per cent change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	US dollar currency impact		Euro currency impact	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Profit or loss and equity	**(2)**	(11)	**(336)**	1,136

At present the Group's translation exposure to the Indian rupee via its Indian joint venture is not significant. As the business grows, this exposure is expected to become more significant.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover future euro and US dollar currency receipts on relevant contracts.

20. Financial instruments continued

The Group uses forward foreign currency contracts to hedge currency risk associated with expected future sales or purchases for which the Group has firm commitments. The terms of the forward foreign currency contracts are negotiated to match the terms of the commitments. During the year, the Group has applied cash flow hedge accounting to these forward foreign currency transactions. As at 31 March 2017, derivatives designated as cash flow hedges had a net carrying amount of £109,000 (2016: £nil) and recognised total gains of £17,000 (2016: £nil) in equity and gains of £92,000 (2016: £nil) in profit and loss in the period.

At 31 March 2017, the Group had forward exchange contracts of 0.3m euros (2016: -16.2m euros) at an average exchange rate of €1.171/£ (2016: €1.343/£) which mature within 12 months of the year-end.

Interest rate risk management

The Group is exposed to interest rate risk as described under the borrowings paragraph earlier in this note. The Group does not currently hedge any of its interest rate exposure.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the gross amount of liability outstanding at balance sheet date was outstanding for the whole period. A 0.5 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5 per cent higher and all other variables were held constant, the Group's profit for the year ended 31 March 2017 and the Group's equity at that date would decrease by £nil (2016: £nil). If the £25,000,000 facility is fully utilised the exposure increases to £125,000. This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

21. Share-based payments

The Group operates a share-based incentive scheme open to all employees of the Group although the current intention is that only the Company's executive directors (being both board directors and certain members of the executive committee) and selected senior employees will participate in the scheme. These awards will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a three-year period. Further details are given in the directors' remuneration report on pages 83 to 100.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £1,667,000 for the year (2016: £727,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.45 per share. Three outstanding awards had been granted to 31 March 2017:

- During the period ended 31 March 2015 the remuneration committee granted 2,152,086 ordinary shares of 2.5p each at £nil value. The vesting of these awards was dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2014 to 31 March 2017. The following vesting schedule applies:

Underlying EPS performance for year ended 31 March 2017	% of award vesting
Equal to less than 3.23p	0%
Equal to 6.45p or better	100%
Between 3.23p and 6.45p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:	
Share price on date of grant	£0.55*
Exercise price	nil
Expected volatility (using historic performance)	76%
Risk-free rate	2.7%
Dividend	1.0p
Actual life	three years

* Granted on 4 June 2014.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £401,000 (2016: £167,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

21. Share-based payments continued

- During the year ended 31 March 2016 the remuneration committee granted 2,292,956 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2015 to 31 March 2018. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2018	% of award vesting
Equal to less than 4.30p	0%
Equal to 6.45p or better	100%
Between 4.30p and 6.45p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.70*
Exercise price	nil
Expected volatility (using historic performance)	74%
Risk-free rate	1.0%
Dividend	1.0p
Actual life	three years

* Granted on 17 June 2015.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £727,000 (2016: £353,000).

- During the year ended 31 March 2017 the remuneration committee granted 3,559,416 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2016 to 31 March 2019. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2019	% of award vesting
Equal to less than 5.06p	0%
Equal to 6.53p or better	100%
Between 5.06p and 6.53p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.50*
Exercise price	nil
Expected volatility (using historic performance)	69%
Risk-free rate	0.2%
Dividend	1.5p
Actual life	three years

* Granted on 29 June 2016.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £539,000 (2016: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2017 Number	2016 Number
Outstanding at the beginning of the year	**6,598,550**	6,170,645
Granted during the year	**3,559,416**	2,328,798
Lapsed during the year	**(796,805)**	(1,900,893)
Vested during the year	**(1,356,703)**	—
Outstanding at the end of the year	**8,004,458**	6,598,550

21. Share-based payments continued

Save As You Earn share option plan ('Sharesave')

The plan, which was established in 2015 and expires in 2025, is open to all employees on the UK payroll. Participants may elect to save up to £500 per month over the life of the plan under three-yearly savings schemes, each with a separate savings contract. Under the 2015 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2015 Sharesave scheme in 2018 those options will become exercisable for a period of six months. A charge of £323,000 (2016: £323,000) was recognised in the current period in relation to the 2015 Sharesave scheme.

Reconciliation of share awards outstanding under the Shareshave plan are as follows:

Save As You Earn option plan ('Sharesave')

	2017 Number	2016 Number
Outstanding at the beginning of the year	**3,709,473**	—
Granted during the year	**—**	3,929,593
Lapsed during the year	**(356,699)**	(215,537)
Vested during the year	**(21,965)**	(4,583)
Outstanding at the end of the year	**3,330,809**	3,709,473

22. Share capital

	2017 £000	2016 £000
Issued and fully paid:		
298,855,911 ordinary shares of 2.5p each (2016: 297,503,587 ordinary shares of 2.5p each)	**7,471**	7,437

During the year, 1,352,324 ordinary shares, with a nominal value of 2.5p each, were allotted and issued in satisfaction of the Group's share-based payment schemes. The ordinary shares carry no right to fixed income.

There are no share options outstanding as at 31 March 2017 (2016: nil).

23. Other reserves

	Share-based payment reserve £000	Other reserves £000	Total £000
At 1 April 2015	1,111	139	1,250
Share-based payments charge	1,050	—	1,050
At 1 April 2016	2,161	139	2,300
Share-based payments charge	1,393	—	1,393
Reclassification adjustments on cash flow hedges	—	110	110
Losses taken to equity on cash flow hedges	—	(93)	(93)
At 31 March 2017	**3,554**	**156**	**3,710**

The movement in the share-based payment reserve represents the share-based payment charge of £1,990,000 (2016: £1,050,000) offset by the recycle to retained earnings of £597,000 for share awards vesting in 2016.

Other reserves consist of the capital redemption reserve of £139,000 (2016: £139,000) and the hedge accounting reserve of £17,000 (2016: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

24. Net cash flow from operating activities

	2017 £000	2016 £000
Operating profit from continuing operations	**18,281**	9,888
Adjustments:		
Depreciation of property, plant and equipment (note 13)	**3,583**	3,693
Loss/(gain) on disposal of land and buildings	**271**	(10)
Gain on disposal of other property, plant and equipment	**(73)**	(127)
Amortisation of intangible assets (note 12)	**2,906**	2,758
Movements in pension scheme (note 29)	**(600)**	(573)
Share of results of JVs and associates (note 14)	**(457)**	230
Share-based payments (note 21)	**1,990**	1,050
Movement in valuation of derivatives	**(830)**	948
Operating cash flows before movements in working capital	**25,071**	17,857
Increase in inventories	**(2,456)**	(527)
(Increase)/decrease in receivables	**(11,648)**	13,725
Increase/(decrease) in payables	**16,386**	(6,221)
Cash generated from operations	**27,353**	24,834
Tax paid	**(2,376)**	(946)
Net cash flow from operating activities	**24,977**	23,888

	2017 £000	2016 £000
Cash generated from operations	**27,353**	24,834
Proceeds on disposal of land and buildings	**1,195**	273
Proceeds on disposal of other property, plant and equipment	**436**	395
Purchases of land and buildings	**(1,517)**	(122)
Purchases of other property, plant and equipment	**(5,442)**	(4,676)
Purchases of intangible fixed assets	**—**	(150)
	22,025	20,554
Underlying operating profit (before JVs and associates)	**19,614**	13,686
Operating cash conversion	**112%**	150%

25. Analysis of net funds

	2017 £000	2016 £000
Cash and cash equivalents	**32,849**	19,033
Unamortised debt arrangement fees	**146**	210
Financial liabilities — finance leases	**(409)**	(589)
	32,586	18,654

26. Capital commitments

	2017 £000	2016 £000
Contracted for but not provided in the financial statements	**—**	728

27. Contingent liabilities

Liabilities have been recorded for the directors' best estimate of uncertain contract positions, known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no liability is recorded where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation. The Group also has contingent liabilities in respect of other issues that may have occurred, but where no claim has been made and it is not possible to reliably estimate the potential obligation (see note 2).

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 31 March 2017 these amounted to £15,000,000 (2016: £15,000,000). The Group has also given performance bonds in the normal course of trade.

28. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2017 and 2032.

The total future minimum lease rentals are as follows:

	2017 £000	2016 £000
Minimum lease rentals due:		
— Within one year	**1,081**	1,113
— After one year and within five years	**2,770**	3,192
— After five years	**10,325**	11,016
	14,176	15,321

The Group also leases certain items of plant and machinery and vehicles whose total future minimum lease rentals are as follows:

	2017 £000	2016 £000
Minimum lease rentals due:		
— Within one year	**1,257**	1,216
— After one year and within five years	**1,466**	2,237
— After five years	**15**	41
	2,738	3,494

The Group as lessor

Property rental income earned on owned properties during the year was £160,000 (2016: £152,000). The properties held have committed tenants for the next one to five years. All operating lease contracts contain market review clauses in the event that the lessees exercise the options to renew. The lessees do not have an option to purchase the property at the expiry of the lease period.

As at the balance sheet date the Group had contracted with tenants for the following future minimum lease payments:

	2017 £000	2016 £000
— Within one year	**74**	142
— After one year and within five years	**100**	158
— After five years	**54**	79
	228	379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

29. Retirement benefit obligations

Defined contribution schemes

The Group operates two defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £1,803,000 (2016: £1,796,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2017, contributions of £350,000 (2016: £307,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group has a defined benefit scheme which is now closed to new members and no defined benefit membership rights will accrue under the scheme.

The scheme exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The present values of the scheme liabilities are calculated using a discount rate determined by reference to corporate bond yields; if the return on scheme assets is below this rate, it will create a plan deficit. The Group holds a significant proportion of growth assets (bonds, gilts and equities) to leverage the return generated by the scheme.
Interest risk	A decrease in the corporate bond interest rate will increase the scheme liabilities, although this will be partially offset by an increase in the return on the scheme's assets.
Longevity risk	The present values of the scheme liabilities are calculated by reference to the best estimate of the mortality of scheme participants which reflect continuing improvements in life expectancy. An increase in the life expectancy of the scheme participants will increase the scheme's liabilities.
Salary risk	The present values of the defined benefit scheme liabilities are calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the scheme participants will increase the scheme's liabilities.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 5 April 2014 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. The next triennial funding valuation of the scheme will be performed in 2018 with a valuation date of 31 March 2017. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2017 %	2016 %
Key assumptions used:		
Discount rate	**2.7**	3.5
Inflation (RPI)	**3.4**	3.0
Future pension increases	**3.3**	2.9

When considering mortality assumptions a life expectancy to 85 at age 65 has been used for the year ended 31 March 2017 (2016: 85).

Impact on scheme liabilities of changes to key assumptions:

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 5.1%
Rate of mortality	Increase by one year	Increase by 3.7%

29. Retirement benefit obligations continued

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2017 £000	2016 £000
Interest cost	1,300	1,233
Interest income	(808)	(723)
	492	510

The charge for the year has been included in operating costs. Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative actuarial gains and losses recognised amount to a loss of £20,090,000 (2016: £12,678,000).

The actual return on scheme assets was a gain of £1,228,000 (2016: £298,000).

The amount included in the balance sheet arising from the Group's obligations in respect of the defined benefit retirement scheme is as follows:

	2017 £000	2016 £000
Present value of defined benefit obligations	(45,816)	(37,601)
Fair value of scheme assets	24,402	22,999
	(21,414)	(14,602)

The major categories of scheme assets as a percentage of the total scheme assets are as follows:

	2017 %	2016 %
Equities	24.2	25.8
Bonds and gilts	53.8	56.8
Cash	5.1	4.9
Property	8.8	10.5
Other	8.1	2.0
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately six per cent of bonds have a sub-investment grade credit rating (BB+ or lower) and approximately 89 per cent of gilts are index-linked, with 11 per cent being fixed.

Movements in the present value of defined benefit obligations were as follows:

	2017 £000	2016 £000
At start of year	(37,601)	(38,958)
Interest cost	(1,300)	(1,233)
Actuarial (losses)/gains	(7,832)	1,727
Benefits paid	917	863
At end of year	(45,816)	(37,601)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were losses of £nil (2016: £nil), losses of £8,179,000 (2016: gains of £1,330,000) and gains of £347,000 (2016: gains of £397,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2017

29. Retirement benefit obligations continued

Movements in the fair value of scheme assets were as follows:

	2017 £000	2016 £000
At start of year	22,999	22,481
Interest income	808	723
Actuarial gains/(losses)	420	(427)
Employer contributions	1,092	1,083
Benefits paid	(917)	(861)
At end of year	24,402	22,999

The Group expects to contribute £94,000 (2016: £91,000) per month to its defined benefit pension scheme in the year to 31 March 2018.

History of experience of gains and losses:

	2017	2016	2015	2014	2013*
Experience gains/(losses) on scheme assets (£000)	420	(427)	1,517	(515)	961
Percentage of scheme assets	1.7%	(1.8%)	6.7%	(2.6%)	5.0%
Experience losses/(gains) on scheme liabilities (£000)	347	397	(364)	(105)	424
Percentage of the present value of scheme liabilities	0.8%	1.1%	(0.9%)	(0.3%)	1.4%
Total amount recognised in the consolidated statement of comprehensive income (£000)	(7,412)	1,300	(4,471)	(1,261)	(2,824)
Percentage of the present value of scheme liabilities	(16.2%)	3.5%	(11.5%)	(3.9%)	(9.1%)

* Represents the 15-month period ended 31 March 2013.

The weighted average period over which benefits are expected to be paid, or the duration of the liabilities, is currently 17 years.

30. Related party transactions

The remuneration of the directors is provided in the audited part of the directors' remuneration report on page 92.

In addition to the board of directors, members of the executive committee are also considered as key management personnel of the Group. Information about the remuneration of the additional directors who belong to the executive committee is as follows:

	2017 £000	2016 £000
Short-term employee benefits	**1,534**	1,358
Contributions into pension schemes	**117**	116
	1,651	1,474

Short-term employee benefits include salary, bonus, social security contributions, the provision of company cars, fuel for company cars and private medical insurance.

The charge in relation to share-based payments is provided in note 21 and relates to executive directors, members of the executive committee and selected other members of the senior management team.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated undertakings are disclosed below.

During the year the Group purchased services in the ordinary course of business from Fabsec Limited ('Fabsec') at a cost of £40,000 (2016: £120,000). The amount due to Fabsec at 31 March 2017 was £116,000 (2016: £116,000).

During the year the Group has contracted with and purchased services from Composite Metal Flooring Limited ('CMF') amounting to £2,003,000 (2016: £382,000). The amount due from and to CMF at 31 March 2017 was £1,882,000 (2016: £101,000) and £649,000 (2016: £266,000) respectively.

During the year the Group incurred additional operating costs in relation to the day-to-day running of its Indian joint venture ('JSSL') of £437,000 (2016: £557,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2017 was £476,000 (2016: £500,000).

31. Post balance sheet events

In May 2017, the board approved an additional equity investment of £5.3m in JSSL, our Indian joint venture, to support repayment of the joint venture's remaining term debt of £10.6m. This decision was made with the agreement of our joint venture partner, JSW, who will also contribute an investment of £5.3m.

FIVE YEAR SUMMARY

	2017 £000	2016 £000	2015 £000	2014 £000	2013† £000
Results					
Revenue	**262,224**	239,360	201,535	231,312	318,256
Underlying* operating profit/(loss) (before JVs and associates)	**19,614**	13,686	8,974	7,621	(19,218)
Underlying* profit/(loss) before tax	**19,845**	13,211	8,311	4,025	(21,532)
Non-underlying items before tax	**(1,790)**	(3,568)	(8,502)	(8,082)	(7,326)
Profit/(loss) attributable to equity holders of Severfield plc	**15,329**	8,600	144	(2,640)	(23,127)
Assets employed					
Non-current assets	**148,292**	149,265	145,078	147,650	154,871
Net current assets/(liabilities)	**28,391**	16,837	16,565	14,243	(32,060)
Non-current liabilities	**(22,526)**	(17,896)	(21,059)	(18,495)	(20,410)
Net assets	**154,157**	148,206	140,584	143,398	102,401
Key statistics					
Earnings per share:					
Basic — underlying*	**5.53p**	3.67p	2.31p	0.88p	(10.78p)
Basic	**5.13p**	2.89p	0.05p	(0.89p)	(13.49p)
Diluted — underlying*	**5.49p**	3.65p	2.31p	0.88p	(10.78p)
Diluted	**5.09p**	2.87p	0.05p	(0.89p)	(13.49p)
Dividends per share	**2.30p**	1.50p	—	—	1.50p
Dividend cover (times) — underlying* basis	**2.4**	2.4	—	—	(13.8)
Share price — high	**83.50p**	73.25p	72.00p	65.50p	114.26p
— low	**43.75p**	52.75p	53.50p	38.00p	35.40p

Key statistics for 2013 have been restated to reflect the 7:3 rights issue in April 2013.

* The basis of stating results on an underlying basis is set out on page 5.
† Represents the 15-month period ended 31 March 2013.

FINANCIAL CALENDAR

Preliminary announcement of full-year results	14 June 2017
Publication of annual report	July 2017
Annual general meeting	6 September 2017
Announcement of interim results (provisional)	21 November 2017

COMPANY BALANCE SHEET

Year ended 31 March 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	2	**58,758**	59,607
Intangible assets		**240**	528
Investments	3	**94,494**	94,494
		153,492	154,629
Current assets			
Debtors — amounts falling due within one year	4	**45,538**	42,810
Cash at bank and in hand		**13,593**	3,300
		59,131	46,110
Creditors — amounts falling due within one year	5	**(99,325)**	(89,189)
Net current liabilities		**(40,194)**	(43,079)
Total assets less current liabilities		**113,298**	111,550
Capital and reserves			
Share capital		**7,471**	7,437
Share premium		**85,702**	85,702
Other reserves		**3,543**	2,150
Profit and loss account		**16,582**	16,261
Equity and total shareholders' funds		**113,298**	111,550

The Company reported a profit for the financial year ended 31 March 2017 of £4,742,00 (2016: £5,061,000).

The financial statements were approved by the board of directors on 14 June 2017 and signed on its behalf by:

John Dodds
Executive chairman

Alan Dunsmore
Acting chief executive officer

Severfield plc
Registered in England No.1721262

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016	**7,437**	**85,702**	**2,150**	**16,261**	**111,550**
Total comprehensive income for the year	**—**	**—**	**—**	**4,802**	**4,802**
Ordinary shares issued*	**34**	**—**	**—**	**—**	**34**
Equity settled share-based payments	**—**	**—**	**1,393**	**597**	**1,990**
Dividends paid	**—**	**—**	**—**	**(5,078)**	**(5,078)**
At 31 March 2017	**7,471**	**85,702**	**3,543**	**16,582**	**113,298**

* The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award which vested in June, September and November 2016.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2015	7,437	85,702	1,100	14,144	108,383
Total comprehensive income for the year	—	—	—	5,092	5,092
Equity settled share-based payments	—	—	1,050	—	1,050
Dividends paid	—	—	—	(2,975)	(2,975)
At 31 March 2016	7,437	85,702	2,150	16,261	111,550

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Year ended 31 March 2017

1. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related notes, related party transactions and comparative period reconciliations. In addition, disclosures in relation to share capital (note 22), share premium and dividends (note 9) have not been repeated here as there are no differences to those provided in the consolidated financial statements.

Except as noted below, the Company's accounting policies are consistent with those described in the consolidated financial statements of Severfield plc.

Profit of the parent company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts.

Audit fees

The Company has taken the exemption granted under SI 2008/489 not to disclose non-audit fees paid to its auditor.

Employees

Directors' remuneration and details of their share-based payments are disclosed in the audited part of the directors' remuneration report on page 92 and in notes 6 and 21 to the consolidated financial statements.

Investment properties

Investment properties are stated at cost less provision for impairment. Depreciation is charged annually at one per cent on a straight-line basis.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amounts owed by subsidiary undertakings

The Company holds intercompany loans with subsidiary undertakings which are repayable on demand. None of these loans are past due nor impaired. The carrying value of these loans approximates their fair value.

Intercompany guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Year ended 31 March 2017

2. Tangible fixed assets

	Freehold and long leasehold land and buildings £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2016	63,765	339	33	64,137
Additions	1,059	104	—	1,163
Disposals	(1,526)	—	—	(1,526)
At 31 March 2017	**63,298**	**443**	**33**	**63,774**
Depreciation				
At 1 April 2016	4,506	5	19	4,530
Charge for the year	499	43	4	546
Disposals	(60)	—	—	(60)
At 31 March 2017	**4,945**	**48**	**23**	**5,016**
Net book value				
At 31 March 2017	**58,353**	**395**	**10**	**58,758**
At 31 March 2016	59,259	334	14	59,607

The Company's freehold and long leasehold land and buildings includes those which are occupied and used by some of the Company's subsidiary undertakings (investment properties). The rental income from these assets in the current year was £504,000 (2016: £504,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

3. Investments

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures and associated undertakings, including their country of incorporation, as at 31 March 2017 is disclosed below. All of these had a reporting period ended 31 March 2017, except where indicated.

Name of undertaking	Incorporated in
100% owned by Severfield plc	
Severfield (UK) Limited	England and Wales
Severfield (NI) Limited(i)	Northern Ireland
Atlas Ward Holdings Limited	England and Wales
Watson Steel Structures Limited	England and Wales
Rowen Structures Limited	England and Wales
Steelcraft Erection Services Limited	England and Wales
Engineering Construction Training Limited	England and Wales
Severfield Reeve Properties Limited	England and Wales
Severfield Reeve Projects Limited	England and Wales
Severfield Reeve International Limited	England and Wales
Severfield Mauritius Limited(ii)	Mauritius
100% owned by Atlas Ward Holdings Limited	
Severfield (Design & Build) Limited	England and Wales
Atlas Ward EBT Limited	England and Wales
100% owned by Severfield Reeve Projects Limited	
Leeds 27 Limited	England and Wales
50% owned by Severfield plc	
Composite Metal Flooring Limited*(iii)	England and Wales
50% owned by Severfield Mauritius Limited	
JSW Severfield Structures Limited(iv)	India
25% owned by Severfield plc	
Fabsec Limited*(v)	England and Wales

* Companies with a reporting period ended 31 December 2016.
‡ Unless otherwise stated the registered office address for each of the above is Severs House, Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire, YO7 3JN.

Registered office classification key:
(i) Fisher House, Main Street, Ballinamallard, Enniskillen, Co Fermanagh, BT94 2FY
(ii) Felix House, 24 Dr. Joseph Rivière Street, Port Louis, Mauritius
(iii) Millennium House, Severn Link Distribution Centre, Newhouse Farm Industrial Estate, Mathern, Chepstow, NP16 6UN
(iv) 401 Grande Palladium, 4th Floor, 175 CST Road, Kalina, Santacrus East, Mumbai, India, 400098
(v) Unit 561 Avenue E East, Thorp Arch Estate, Wetherby, LS23 7DB

	2017 £000	2016 £000
Investment in subsidiaries	**73,746**	73,746
Investment in joint ventures	**20,748**	20,748
	94,494	94,494

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Year ended 31 March 2017

3. Investments continued

Investment in subsidiaries

	£000
Cost	
At 1 April 2016 and 31 March 2017	**93,946**
Provision for impairment	
At 1 April 2016 and 31 March 2017	**(20,200)**
Net book value	
At 31 March 2017	**73,746**
At 31 March 2016	73,746

Investment in joint ventures

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

JSW Severfield Structures Limited is registered in India. During the year, the Company did not make any further indirect investments in the joint venture (2016: £nil). The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

As a result of the continued close to break-even profit position of the Indian joint venture, the Company's investment in the joint venture of £13,344,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2019 to 2021. The calculations assume a long-term growth rate of 1.5 per cent (2016: 1.5 per cent) from 2022 onwards and a pre-tax discount rate of 10 per cent (2016: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2017 (2016: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment; however, the achievement of the forecasts is dependent on the move to a sustainable profit position.

On 16 November 2015, the Company completed its investment in a 50 per cent share of CMF Limited which has been accounted for as a joint venture. The total consideration for the investment is £7,039,000, which consists of an initial payment of £4,126,000 (including transaction costs of £126,000), an additional payment of £413,000 (made in early 2017) following agreement of the final working capital position and a further £2,500,000 which is payable over the next five years subject to certain conditions.

	£000
Cost	
At 1 April 2016 and 31 March 2017	**20,748**

4. Debtors — amounts falling due within one year

	2017 £000	2016 £000
Other debtors	**527**	1,191
Amounts owed by subsidiary undertakings	**43,586**	40,835
Amounts due from JVs and associates	**101**	101
Corporation tax recoverable	**1,324**	683
	45,538	42,810

5. Creditors — amounts falling due within one year

	2017 £000	2016 £000
Other creditors and accruals	**10,902**	9,687
Amounts owed to subsidiary undertakings	**84,574**	74,981
Deferred tax liability (note 6)	**3,849**	4,521
	99,325	89,189

6. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	2017 £000	2016 £000
Deferred tax liabilities	**(4,849)**	(5,151)
Deferred tax assets	**1,000**	630
	(3,849)	(4,521)

Deferred tax — movement for the year

	Excess capital allowances £000	Other timing differences £000	Total £000
At 1 April 2015	(5,764)	339	(5,425)
Current year credit	62	284	346
Credit to equity	—	31	31
Effect of change in tax rate	551	(24)	527
At 1 April 2016	(5,151)	630	(4,521)
Current year credit	37	310	347
Credit to equity	—	60	60
Effect of change in tax rate	265	—	265
At 31 March 2017	**(4,849)**	**1,000**	**(3,849)**

The Finance Act 2016 included provisions to reduce the rate of corporation tax from 20 per cent to 19 per cent with effect from 1 April 2017 and to 17 per cent with effect from 1 April 2020. As these changes were substantively enacted on 6 September 2016, they have been used to calculate closing deferred tax balances as appropriate.

7. Contingent liabilities

The Company has provided an unlimited multilateral guarantee to secure any bank overdrafts and loans of all other Group companies. At 31 March 2017 these amounted to £nil (2016: £nil).

ADDRESSES AND ADVISERS

Registered office and headquarters
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YO7 3JN

Operational businesses
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Severfield (Design & Build) Limited
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