Delivering sustainable growth from a strong foundation

Severfield

Annual report and accounts
for the year ended 31 March 2019

Stock code: SFR
www.severfield.com

ANNUAL REPORT

Review this annual report online at:
severfield.annualreport2019.com

WELCOME TO OUR
2019 ANNUAL REPORT

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

“I am pleased to report that 2019 has been another successful year, with further progress made towards our strategic objectives in the UK, Europe and India.”

John Dodds
Non-executive chairman

Read more on **our chairman’s view** on page 8

“Our ‘Smarter, Safer, more Sustainable’ initiatives have contributed to increased operational efficiencies, which are benefitting the Group’s profitability.”

Alan Dunsmore
Chief executive officer

Read more about **our strategy** on pages 26 to 32

Investor website

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


22

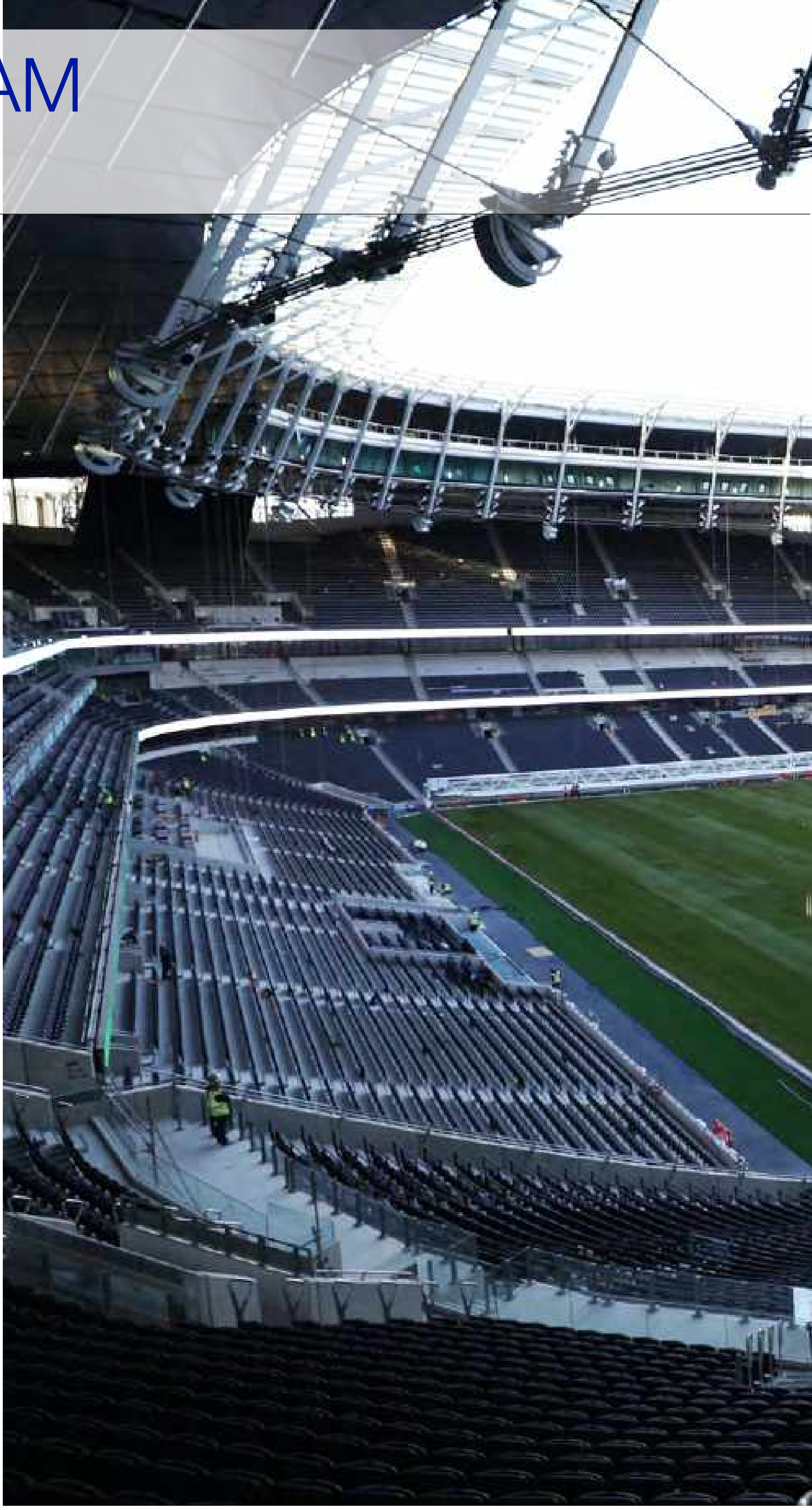
Contents

Severfield

The strength within iconic structures

Our projects

TOTTENHAM HOTSPUR



This project involved the construction of a new football stadium at White Hart Lane in London – the home ground of Tottenham Hotspur.

Location
Tottenham, London

Client
Tottenham Hotspur Football Club

Contract manager
Mace

Engineer
BuroHappold Engineering

Architect
Populous

Tonnage
16,700

Completion date
July 2019

The project

The new stadium provides Tottenham Hotspur with a state-of-the-art sporting and entertainment facility, which seats over 62,000 spectators. It is the first stadium in the UK to feature a retractable pitch which divides into a retractable grass pitch for football and a synthetic surface underneath for National Football League ('NFL') games and other sporting and entertainment events.

Construction of the first phase of the project, comprising the north, east and west stands, took place during the 2016/17 football season whilst the old White Hart Lane stadium was still in operation. Following the last game of the season, in May 2017, the old stadium was demolished and work on the south stand commenced during our 2018 financial year. The main features of this first phase were two architecturally unique steel 'trees' within the south stand, each weighing

275 tonnes, which support the new 17,500-seater single-tier home stand designed to provide excellent sightlines and generate a 'wall of sound' within the seating bowl.

During the Group's 2019 financial year, the second phase of the project mainly focused on the construction of the highly technical roof structure. The new roof is formed from structural tension cables fixed to the compression ring which creates the 693-metre elliptical outside profile of the stadium. The compression ring comprises 54 box girders each measuring around 15 metres long and weighing between 25 to 30 tonnes. The structure was trial assembled and fabricated at our Lostock facility in order to achieve accuracy in length within tolerances of less than 1 millimetre. On site, due to the fast-paced nature of the programme, the lifting of the 600-tonne roof into place was performed before the stadium's seating bowl was completed, building an additional layer of complexity into an already challenging project. Lifting the cable net roof structure involved a highly complex hydraulic strand jacking operation, requiring the most jacks used in such a lift in the UK.

60 LONDON WALL

The 60 London Wall redevelopment project will transform a 1980s office block located in the City of London into a modern 12-storey mixed-use retail and commercial destination. Occupying a prominent 1.3-acre corner site in a prime location, it's a great example of how new structural elements can be incorporated into old.

Location
City of London

Client
LaSalle Investment Management

Main Contractor
Skanska

Engineer
Heyne Tillett Steel

Architect
EPR Architects

Tonnage
2,000

Completion date
August 2019

The project

The property comprises a basement level, containing service and support facilities, a ground floor with office reception, office and retail floor space with the majority of the office space arranged over large flexible upper floorplates arranged around a central atrium. The project aims to extensively refurbish, reconfigure and reinvent the existing seven-storey 1980s building by stripping it back to the frame and adding an extra five floors, increasing the total office space to 320,000 square feet.

Replacing the original concrete core with two new slimmer cores to create an atrium, Severfield extended the existing building by a further five storeys with the installation of a new structural steel frame. We also fabricated and installed steelwork for the full-height scenic lifts around the edge of the atrium, which consisted

of ladder-frame type assemblies connected back to the mainframe steelwork. Planning, timing and logistics were key in making sure the various elements of the project were installed smoothly as, due to the site's location in the heart of the City, early morning deliveries and temporary road closures were required in order to minimise disruption.

As well as the logistical challenges associated with working on a busy city centre site in London, this project also presented additional design and installation complexities that are generally not found on typical new-build projects. Once the existing building had been stripped back to the original concrete core, close collaborative working with numerous trades and extensive site surveying of the existing frame were required to ensure the engineers, architects and the Severfield drawing office had as much real-time information as possible so that connections could be designed to adapt to the pre-existing steel frame. Tying into the existing frame meant a substantial amount of new connections were required to be made on site (either drilled or welded) to support the new steel framework.

22 BISHOPSGATE

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

Location
City of London

Client
AXA Real Estate

Main Contractor
Multiplex Europe

Engineer
WSP UK

Architect
PLP Architecture

Tonnage
17,000

Completion date
Mid-2019

The project

The completed project will become the City's tallest tower standing at 278 metres high and will provide approximately 1.3 million square feet of office space and 43,000 square feet for restaurants and retail facilities. The tower will also be the first of its kind to house a fresh food market, innovation hub, well-being retreat and spa, curated 'art walk' as well as London's highest free public viewing gallery.

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 which were built by others, below ground floor, carry the superstructure loads into the existing Pinnacle foundations.

Construction started in 2017 and is expected to be completed in mid-2019. Severfield provided the connection design, fabrication and construction of c.17,000 tonnes of structural steel, which included the use of Fabsec plated composite beams from level 10 upwards. Other services and fixtures include the manufacture and installation of c.1.6 million square feet of metal decking and the installation of 500,000 shear studs. Severfield also provided full edge protection to the floors using the ‘Seversafe’ edge protection system and ‘Seversafe’ perimeter fan system.

DISTRIBUTION CENTRE
DARLINGTON

This new distribution centre, is strategically located in an increasingly important logistics location with a good labour supply. Once complete, it will be the largest single-let logistics facility outside the South East, as well as one of the most technologically advanced centres in the UK.

Location
Darlington

Client
DB Symmetry

Main Contractor
ISG

Engineer
JPG Consulting Group

Architect
The Harris Partnership

Tonnage
8,000

Completion date
May 2019

The project

Located within the 90-acre Symmetry Park in Darlington, the project encompasses an 18-span portal frame with two mezzanine floors providing 1.5 million square feet of state-of-the-art warehouse space. Surrounding the main warehouse are seven connected buildings which include a single storey welfare and office block, a drivers' hub building with office and welfare facilities, two stair towers and three circulation towers.

Severfield provided the main member and connection design (including temporary works), detailing, fabrication, treatment and construction of the steel frame. The project also included the supply and installation of 470-tonnes of cold rolled rails and purlins, c.1 million square feet of metal decking and over 185,000 shear studs as well as steel stairs, open grid flooring and vertical access ladders.

This project tested the skill and flexibility of the Severfield team as the numerous elements of the build specifications were continuously tailored to the customer's needs throughout the project, with significant changes made to the perimeter buildings and elevation. The layout of the single storey welfare and office block, drivers' hub building, and circulation towers were reconfigured resulting in complete redesigns of those structural frames.

In addition, ribbon windows and further access doors were added to the elevations together with the reconfiguration of the mezzanine floor voids and roof platforms. To ensure the continuous smooth operation of the project, close collaboration with other trades was required.

This project was assisted by the 'Seversafe' offloading system and over 6,500 feet of 'Seversafe' edge protection, which enabled the team to unload the site materials quickly and efficiently and remain safe which working at height.

MANCHESTER ENGINEERING CAMPUS DEVELOPMENT

Manchester Engineering Campus Development ('MECD') is one of the single largest construction projects undertaken by any higher education institution in the UK and will create an environment for the brightest engineers to innovate.

Location
Manchester

Client
University of Manchester

Main Contractor
Balfour Beatty

Engineer
ARUP

Architect
BDP

Tonnage
4,100

Completion date
August 2019

The project

The University of Manchester is investing over £300 million in the MECD project, which consists of four individual buildings with facilities that will accommodate over 6,700 students and almost 1,300 staff. Once complete, it will create a new state-of-the-art engineering campus over eight floors and a floorspace of c.820,000 square feet (the size of approximately 11 football pitches), that is already being dubbed as 'the northern engineering powerhouse'.

Severfield's scope of works on the project consists of connection design, detailing, fabrication, supply, and on-site construction of the permanent and temporary steelwork associated with the four new buildings. We also supplied and installed c.115,000 square feet of metal decking, pre-cast concrete planks, and pre-cast concrete stairs for the project. Early in the project lifecycle, we were involved in the tender and pre-construction

stages, which created a platform for influencing key aspects of the design. This early involvement also enabled the development of a close, collaborative working relationship with Balfour Beatty. This relationship has contributed to the successful delivery of the project.

Due to the location of the site, the project team have encountered various complexities. An old Victorian sewer runs through the site and underneath the largest of the four buildings. In order to minimise the number of supports and foundations required, large truss steelwork spanning 75 feet across the width of the sewer was incorporated into the steel frame. Using a mix of fabricated steelwork, which saw the work shared between our Severfield (UK) Dalton and Lostock facilities, allowed us to span this distance. The weight of the truss components used, which can weigh up to 25 tonnes each, exceeded the capacity of the tower cranes, therefore large crawler and mobile cranes, with up to 400 tonne capacity, were used to install parts of the project without risking damage to the underground sewer.

Other Severfield services utilised on this project include our 'Seversafe' edge protection on all floors and the 'Seversafe' off-loading system.

SEVERFIELD: A SNAPSHOT

Overview

Where we do it

Our Group

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

Severfield (Design & Build)
Sherburn and Dalton, North Yorkshire

Severfield (NI)
Ballinamallard, Co. Fermanagh

Severfield (Products & Processing)
Sherburn and Dalton, North Yorkshire

Severfield Europe
Zevenbergen, Netherlands

JSW Severfield Structures
Mumbai, India

Construction Metal Forming (previously Composite Metal Flooring)
Monmouthshire, Wales

Read more about **the scale of our operations** on pages 12 to 15

Who we serve

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.

Read more about **the markets we serve** on page 20

What we do

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.

Read more about **our business model** on page 18

How we manage threats

Our risks

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.

Read about **how we manage risk** on pages 62 to 74

What we want to be
Our vision

What we set out to achieve
Our mission

How we will achieve our vision
Our strategy

Read more about **our strategy** on pages 26 to 32

What defines us
Our values

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.

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.

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

Growth | **Clients** | **India** | **Operational excellence** | **People**

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.

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.

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.

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.

How we measure success

Our KPIs

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

Read about **key performance indicators** on pages 34 to 37

How we govern ourselves

Our governance

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.

Read more about **governance** on pages 86 to 91

How we impact on society

Resources and relationships

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

- **Safety**
- **Sustainability**
- **People**
- **Community**

Read more about **building a sustainable business** on pages 52 to 61

OUR YEAR IN REVIEW

Overview

“2019 has been another successful year for the Group.”

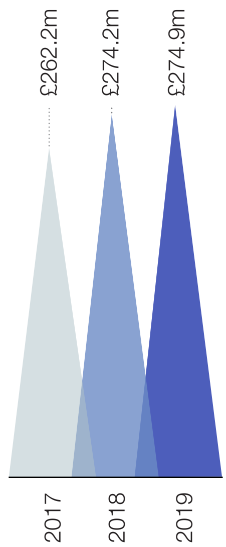
Adam Semple
Group finance director

Read more about **our financial performance** on pages 46 to 50

Financial highlights

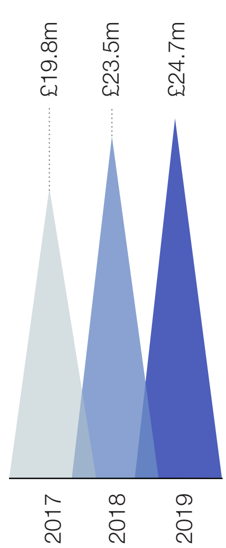
Revenue

£274.9m



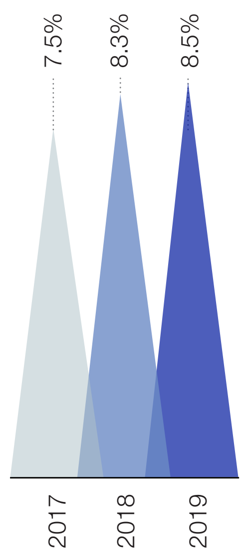
Underlying* profit before tax

£24.7m



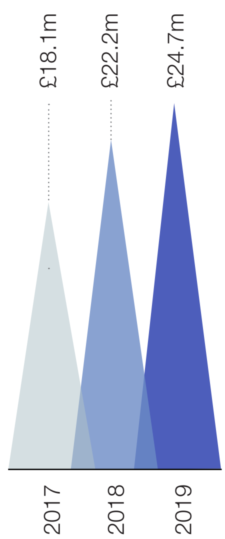
Underlying* operating margin

8.5%



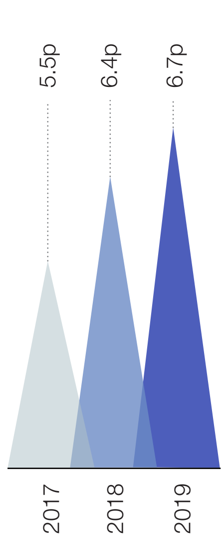
Profit before tax

£24.7m



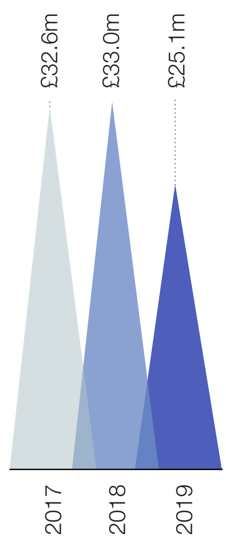
Underlying* basic earnings per share

6.7p



Net funds

£25.1m



Operational highlights

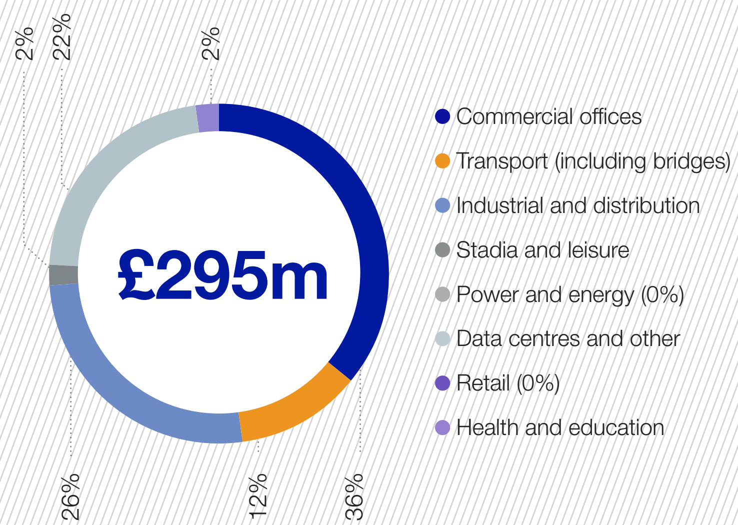
- Revenue of £274.9m (2018: £274.2m)
- Underlying* profit before tax up 5% to £24.7m (2018: £23.5m)
- Underlying* basic earnings per share up 5% at 6.7p (2018: 6.4p)
- Year-end net funds of £25.1m (2018: £33.0m) after payment of 2018 special dividend (£5.2m) and equity investment (£4.2m) in India to finance expansion of the Bellary factory
- Total dividend increased by 8% to 2.8p per share (2018: 2.6p per share), includes proposed final dividend of 1.8p per share (2018: 1.7p per share)
- Over 100 projects undertaken during the year in diverse market sectors including the new stadium for Tottenham Hotspur FC, the retractable roof for Wimbledon No.1 Court and a new commercial tower at 22 Bishopsgate
- UK and Europe order book of £295m at 1 June 2019 (1 November 2018: £230m), including the first orders secured by our new European business
- Share of profit from Indian joint venture ('JSSL') up 140% at £1.2m (2018: £0.5m)
- Step change in Indian market position reflected in order book of £134m at 1 June 2019 (1 November 2018: £124m), expansion of the Bellary factory in progress

* There are no non-underlying items in the current year. In the prior year, underlying results are stated before non-underlying items of £1.3m, relating to amortisation of acquired intangible assets.

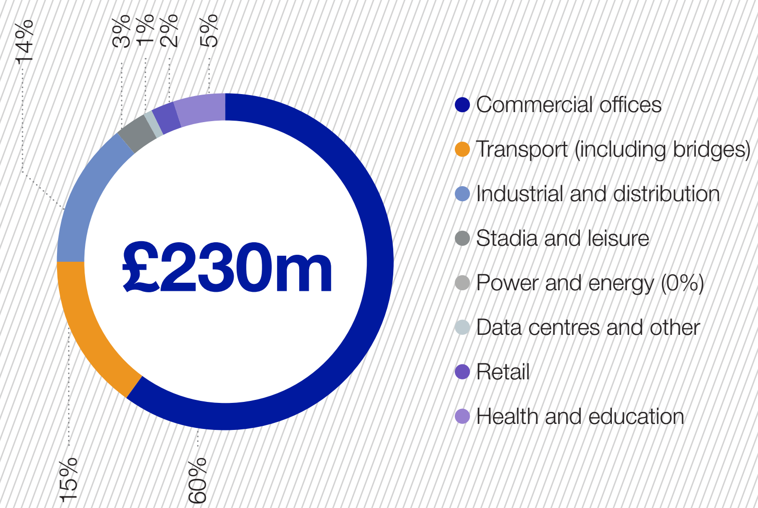
UK order book 2019

The order book contains a healthy mix of projects across a diverse range of sectors including commercial offices, industrial and distribution, data centres and retail.

Our UK and Europe order book at June 2019



Our UK and Europe order book at November 2018



Read more about **our operating performance** on pages 38 to 45

BUILDING OUR STRONG FOUNDATIONS

Timeline

2013

April 2013

Completed a rights issue which raised £45m and recapitalised the business with a stabilised financial structure to secure the long-term future of the Group.

September 2013

Restructured the Group's three operating businesses into a single trading entity, Severfield-Watson Structures Ltd (now Severfield (UK) Ltd) and completion of a comprehensive management review and restructuring programme.

November 2013

Appointed Ian Lawson as chief executive officer.

2014

During 2014

Development of a long-term Group strategy based on building a solid platform for continued growth in the UK and overseas and launched a comprehensive Group operational improvement programme.

October 2014

Established a new £25 million revolving credit facility until July 2019.

December 2014

The Group secured six new contracts, worth £43 million in total, including being appointed as the steelwork contractors for the expansion of Anfield stadium for Liverpool FC.

2015

November 2015

Successfully completed our 50% investment in Construction Metal Forming Limited (previously Composite Metal Flooring Limited).

December 2015

Awarded the contract for the construction of the new stadium for Tottenham Hotspur FC.

2016

January 2016

Set up Severfield Foundation, a registered charitable organisation raising funds for, and offering assistance to, charitable bodies throughout the UK, mainly through the activities of Severfield employees.

March 2016

Awarded the contract to fabricate and construct the retractable roof for Wimbledon No.1 Court.

2017

June 2016

Outlined the Group's new strategic target to double 2016 underlying profit before tax to £26 million by 2020.

November 2016

Secured six new contracts worth £72 million including being awarded the contract to design, fabricate and construct c.17,000 tonnes of structural steel for 22 Bishopsgate, London.

April 2017

Incorporated Severfield Europe B.V. in the Netherlands, focusing on tailoring our established UK offering for expansion into the European market.

During 2017

Launched our business improvement programme, 'Smarter, Safer, more Sustainable' consolidating the Group's operational improvement projects, including improvements to our business processes, use of technology and operating efficiencies.

July 2017

Completed the installation of a brand new £2 million state-of-the-art 'T & I' plate girder line at Severfield (UK)'s Lostock facility to significantly improve our capability within the bridge market.

December 2017

Awarded the contract for Google Headquarters in King's Cross. Severfield to supply 15,900 tonnes of structural steelwork services for the 11-storey building.

2018

January 2018

Appointed Alan Dunsmore as chief executive officer.

Reorganised our factory operations in North Yorkshire, consolidating the steel fabrication at Sherburn and Dalton into the Dalton facility, making better use of our operational footprint in Yorkshire and drive further operational improvements.

April 2018

Trading commenced at Severfield (Products & Processing), the Group's new business venture in Sherburn to address smaller scale projects and provides a one-stop shop to fabricators to source processed steel and ancillary products.

December 2018

Expansion of the Bellary facility in India commences and is expected to be completed towards the end of the 2020 financial year.

2019

March 2019

Severfield Europe B.V. wins its first two contracts.

OUR CHAIRMAN'S VIEW

Overview

"We continue to make progress in executing our strategy."

John Dodds
Non-executive chairman

I am pleased to report that 2019 has been another successful year, with further progress made towards our strategic objectives in the UK, Europe and India.

We have delivered another year of profit growth, with underlying* profit before tax increasing by five per cent to £24.7m, from £23.5m in 2018. This reflects a good operating performance from our core UK businesses, along with an improving profitable performance from the Indian joint venture ('JSSL').

Turning to the balance sheet, year-end net funds were £25.1m (2018: £33.0m) following the payment of the 2018 special dividend and the further equity investment in JSSL to finance the expansion of factory capacity at Bellary. Our continued strong cash position provides us with a competitive benefit with both clients and suppliers, and has also allowed us to invest in further capital initiatives in the year to support future growth and operational efficiencies at our sites.

I am also pleased to report that following extensive negotiations with all stakeholders, we have now agreed a final settlement for the remedial bolt replacement works at Leadenhall, resulting in no further costs for the Group.

Read more about **our operating performance** on pages 38 to 45

Board changes

In June 2018, we announced that Chris Holt had tendered his resignation as a non-executive director of the Company and he subsequently retired from the board at the conclusion of the 2018 AGM on 4 September 2018. On behalf of the board, I would like to reiterate my thanks to Chris for his significant contribution during seven years with the Company. We have commenced a search for his successor and an announcement will be made in due course.

Read more about **our board of directors** on page 78

Corporate governance

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

Dividends

In line with our dividend policy and continued confidence in our ability to deliver sustainable returns to shareholders, the board is recommending an eight per cent increase in the 2019 full year dividend to 2.8p (2018: 2.6p per share). This recommendation results in a proposed 2019 final dividend of 1.8p (2018: 1.7p per share). These dividends reflect the improved result for the year and the board's confidence in the long-term prospects of the Group.

Read more about **our financial performance** on pages 46 to 50

Strategy and markets

The current year performance has been achieved despite more uncertain times. The collapse of Carillion and the challenges faced by other companies in the construction supply chain have impacted the sector as a whole. Furthermore, we have seen some evidence of UK investment decisions being delayed in some of our market sectors against a backdrop of greater political uncertainty in the UK, the impact of which is being offset by more buoyant market conditions in the Republic of Ireland and in Europe. All in all, we are very encouraged by our order book of £295m and are seeing a pipeline of potential future orders which remains stable with a good balance of work across our key market sectors, particularly for industrial and distribution and data centres.

Turning to strategy, as well as making continued good progress towards our 2020 strategic profit target, we continue to deliver on our strategic objectives. We have seen further growth in our profits and ongoing investment in our clients, people and facilities. The Group's 'Smarter, Safer, more Sustainable' programme of projects has continued to drive improvements to operational efficiencies and business processes. We are focused on applying Lean principles across all manufacturing activities and we will continue to invest in technology and the automation of processes where efficiency improvements can be realised.

We continue to pursue our three areas of organic growth – Europe, Severfield (Products & Processing) ('SPP') and a medium to high-rise residential solution. Our European business has now successfully secured its first two orders and these contracts will be delivered in 2020. At SPP, notwithstanding some market headwinds, we have secured and delivered a number of orders to a variety of new customers and continue to gain more intelligence on both our competitors and market dynamics as a whole. The market for medium to high-rise residential construction remains attractive to us and we are pushing hard to secure our first order.

India

JSSL has continued to expand and we are now seeing clear evidence of the step change in the market for structural steel in India. The business delivered an improved profitable result in 2019, reflecting both a good operating performance together with lower financing costs. The expansion of the Bellary facility is now underway and is expected to be completed towards the end of the 2020 financial year.

The JSSL order book (£134m) has continued to grow significantly as the market for structural steel in India continues to expand. This market position is also reflected in a growing pipeline which includes a number of potential commercial projects, together with various industrial opportunities, including those for our joint venture partner, JSW Steel.

Read more about **our strategy** on pages 26 to 32

People

On behalf of the board, I would like to thank our employees for their hard work and dedication in contributing to the Group's improved performance in 2019. Their commitment to the business, focus on customer service and drive to improve operational efficiency has enabled us to build on the progress made in recent years.

We have continued to strengthen the organisation's leadership team during the year both at the executive committee level and in the local business leadership teams.

The Group strategy continues to support health and safety as being at the forefront of everything we do, and the well-being of our people is a key priority of the board. We have made good progress in reducing our accident frequency rate ('AFR') over recent years and I am pleased to report that the AFR has again improved in the current year. As part of our commitment to a 'safety first' culture, we continue to work to raise awareness of all aspects of employee health, including an internal campaign focused on the mental health of our people.

Read more about **building a sustainable business** on pages 52 to 61

Outlook

We continue to make progress in executing our strategy. Our strong market-leading position, our quality order book of £295m, our good pipeline of future opportunities and the quality of our workforce, senior leadership team and board leave us well-placed to deliver on our strategic expectations and for long-term growth.

John Dodds
Non-executive chairman
19 June 2019

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

OUR UNIQUE OFFERING

Focused on leading customer service, supported by our scale and innovative thinking.

1 Client focus

We are committed to providing 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 Market leader

Severfield is the UK's market-leading structural steel company, respected for delivering world-class engineering and design excellence. We have unrivalled experience and capability in the design, fabrication and construction of steel structures. The breadth of technical 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 Benefits of scale

Severfield is the largest structural steel business in the UK and one of the largest in Europe, with an expanding presence in India, providing unrivalled capacity and capability allowing us to share our expertise across a wide range of market sectors to deliver cost-effective and innovative steel structure solutions.

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. Our business model is based on a virtuous cycle of growth, investment and innovation.

6 Operational excellence

Our board of directors and employees have a wealth of experience in the construction industry. We have a track record of successful operational performance on many of the UK's most iconic structures. Our 'Smarter, Safer, more Sustainable' team are focused on delivering internal efficiency improvements to support the Group's operational efficiency and effectiveness.

7 Productivity and growth

Our disciplined use of capital for investment in market-leading technology, plant and equipment leads to higher quality products with a shorter turnaround, increasing the productivity of our operations. Alongside our targeted strategies for growth and operational excellence, our business model illustrates the Group's clear plan to develop and increase our market share and maximise shareholder returns.

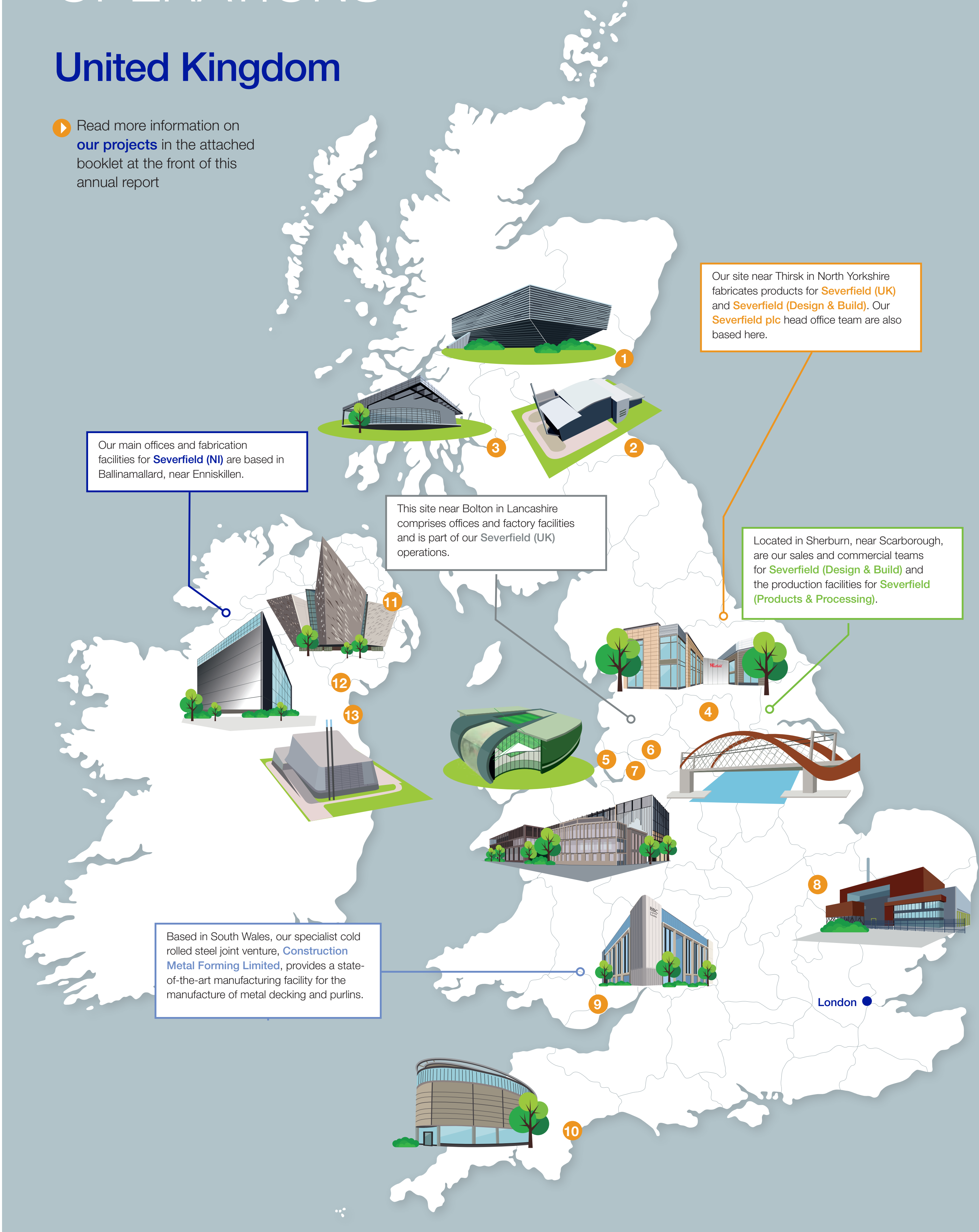
8 Supply chain strengths

Careful management of the supply chain is an essential part of improving efficiency.
We choose supply chain partners who match our expectations in terms of quality, sustainability and commitment to client service.

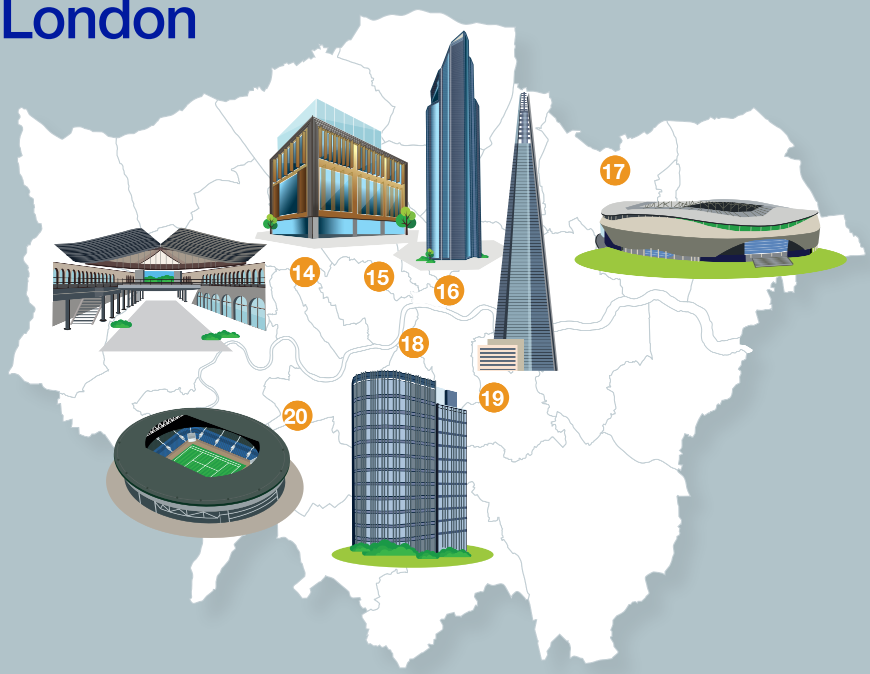
THE SCALE OF OUR OPERATIONS

United Kingdom

Read more information on **our projects** in the attached booklet at the front of this annual report



Greater London



Europe

Key to our projects

1 **V&A Museum, Dundee**
Health and education

2 **Dunbar, Scotland**
Power and energy

3 **Emirates Arena & Velodrome, Glasgow**
Stadia and leisure

4 **Westfield Shopping Centre, Bradford**
Retail

5 **Anfield Stadium, Liverpool**
Stadia and leisure

6 **Ordsall Chord, Manchester**
Transport

7 **Manchester Engineering Campus Development, Manchester**
Health and education

8 **Peterborough Waste to Energy plant**
Power and energy

9 **BBC, Cardiff**
Commercial offices

10 **Princesshay, Exeter**
Retail

11 **Titanic, Belfast**
Commercial offices

12 **Large data centre, Dublin**
Data centres and other

13 **Covanta, Dublin**
Power and energy

14 **Coal Drops Yard**
Retail

15 **St Giles Circus**
Commercial offices

16 **22 Bishopsgate**
Commercial offices

17 **Tottenham Hotspur**
Stadia and leisure

18 **South Bank Tower**
Commercial offices

19 **The Shard**
Commercial offices

20 **Wimbledon No1 Court Roof**
Stadia and leisure

21 **ESS Target, Lund, Sweden**
Data centres and other

22 **Large data centre, Finland**
Data centres and other

23 **Large data centre, Belgium**
Data centres and other

THE SCALE OF OUR OPERATIONS

Operating across the Group's four main UK locations, we provide unrivalled capacity, capability and technical expertise to the industry. Our joint venture operations in India and Wales are fundamental in helping the Group achieve our strategic growth objective.

Our subsidiaries

Severfield (UK) Limited

Dalton,
North Yorkshire

c.550 employees

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

Severfield (UK) Limited

Lostock,
Lancashire

c.250 employees

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.

Severfield (Design & Build) Limited

c.100 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. In 2018, steel fabrication at Sherburn was consolidated into our Dalton factory.

Severfield (NI) Limited

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. The facility provides full-service capabilities and is equipped with the latest manufacturing processes. The company's highly skilled workforce includes a directly employed site construction team. This offers significant benefits to clients with experienced, dedicated and capable personnel administering every part of the fabrication and construction process from initial scheme design, through detailing, specification and manufacture to the eventual handover of a quality product on-site.

Severfield (Products & Processing) Limited

Severfield (Products & Processing) was launched at Sherburn in 2018. The company offers a one-stop shop for steel products and processing service using our extensive range of equipment and allows us to address smaller scale projects, a new area of growth potential.

Severfield Europe B.V.

We have continued to develop our European business, based in the Netherlands, to extend the Group's capabilities into continental Europe. The company's highly skilled team are winning work and developing a pipeline of future orders across a wide range of high-quality projects in Northern Europe and Scandinavia. Supported by our UK fabrication capability, this enables the company to tailor our established UK offering to the wider European market.

Our joint ventures

JSW Severfield Structures Limited

The company, a 50:50 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 expanding Indian market.

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.

In 2018, work commenced on the expansion of the Bellary facility which will increase capacity from 60,000 tonnes to 90,000 tonnes by the end of the 2020 financial year.

Construction Metal Forming Limited (previously Composite Metal Flooring Limited)

The Group has a 50 per cent share of Construction Metal Forming Limited ('CMF'), a specialist designer, manufacturer, innovator and installer of profiled MetFloor® metal decking. The modern manufacturing facility in South Wales houses three dedicated roll forming production lines, for the manufacture of MetFloor® metal decking. Recent investment by CMF has further expanded the company's product range to include cold formed products and the design and manufacture of steel purlins.

STRATEGIC REPORT

HOW WE CREATE VALUE

Our company

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

Our customers

Clients serviced by the Group cover a broad range of disciplines from contractors and developers, to engineers and architects. We are focused on and are committed to delivering excellent customer service at every stage of the project to our broad range of clients and draw upon our industry experience to allow us to tailor our offering and service to customers' needs.

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 2D and 3D 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 1,200 staff including an in-house construction team. We have the design 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 through contracting processes. Our framework of robust risk management and control ensures that challenges are mitigated, allowing us to deliver all projects to the highest possible standard. 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, sustainability and excellent client service.

Why they work with us

Severfield has a strong history of delivering iconic and unique structures. Our competitive advantage derives from our client focus, operational excellence, benefits of scale, integrated approach from design to construction, innovation and our strong focus on driving growth and productivity.

We aim to leverage our skills and experience in these areas to allow us to better understand our customers' own needs and work with them to provide world-class steel solutions. We approach every project, from the highly technical to basic structural work, with the same level of safety, professionalism, commitment, care and customer service.

Read more about **our unique offering** on pages 10 and 11

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.

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.

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.

THE MARKETS WE SERVE

Key facts

Group production
80,000 tonnes

Group potential capacity
150,000 tonnes

Market output for structural steelwork in the UK
c.900,000 tonnes

UK and Europe order book
£295m

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

Marketplace

The UK constructional steelwork market, as measured by the British Constructional Steelwork Association ('BCSA'), remained stable in 2018 (calendar year) at c.900,000 tonnes. Consistent with the previous year, this equates to a total market of approximately £1.7 billion. The market has shown no significant change in the past two calendar years, but this follows a strong return to growth between 2014 and 2016 following the global financial crisis.

In the previous year, we reorganised our factory operations in North Yorkshire, resulting in steel fabrication at Dalton and Sherburn being consolidated in our Dalton facility, and established a new business venture, Severfield (Products & Processing) Limited ('SPP'), to allow us to specialise in smaller scale projects. The combined Dalton facility is now operating at scale and SPP is gaining traction in new market sectors. The Group's potential production capability remains at approximately 150,000 tonnes. In 2019, Group revenue of £275m represented a modest increase, to a nine-year high, reinforcing our market-leading position and the continued delivery of our strategic objectives.

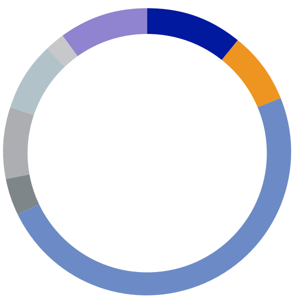
Outlook

UK

Looking further ahead, overall the UK market continues to appear largely stable, with modest economic growth forecast. Notwithstanding this, we are seeing evidence of some UK investment decisions being delayed against a backdrop of a generally more cautious investment climate, particularly in the commercial sector, potentially owing to Brexit-related uncertainty. Forecasts prepared by the BCSA suggest some return to growth in the short to medium term, with total UK steelwork consumption of 920,000 tonnes forecast by 2021. This is assisted by UK Government policy which is continuing to help drive a strong pipeline of major infrastructure projects, particularly in the transport sector. We anticipate that there will be several significant opportunities over the next few years in projects which include HS2 (bridges and stations), UK airport expansions and the ongoing Network Rail and Highways England investment programmes. In addition, we are starting to see more activity in the London commercial market, a trend that we expect to increase over the next few years.

Our sectors

The market sectors targeted by the Group, and their estimated size in tonnes during 2018 are shown below:



	Percentage	Tonnes
Commercial offices	11%	97,000
Transport (including bridges)	8%	75,000
Industrial and distribution	49%	432,000
Stadia and leisure	4%	36,000
Power and energy	8%	75,000
Data centres and other	8%	74,000
Retail	2%	16,000
Health and education	10%	90,000

The data centre and industrial and distribution markets have remained strong and are forecast to grow in 2019 and 2020, although pricing remains competitive. The Group has good experience in these sectors and is able to meet customer requirements, including a high-quality product, rapid throughput, on-time performance and full coordination between stakeholders.

The mix of work within the market sectors that we target will be a key determinant of the Group's future performance. Over the last year, we have widened the target segments of the market that we focus on. Larger, more complex projects will continue to offer good opportunities, but we are now effectively competing and winning a higher volume of smaller, lower risk projects including those in the regions (outside London). The Group continues to focus on improving efficiencies through our 'Smarter, Safer, more Sustainable' programme, which supports our ability to compete in a wider range of market segments.

Europe

The impact of softer UK market conditions is being offset by the continued re-emergence of the Republic of Ireland market and significant opportunities in continental Europe, where we have demonstrated our ability to win work, supported by our European business based in the Netherlands.

During the year, the Group has successfully secured work in the Republic of Ireland, Sweden, the Netherlands and Finland, which includes the first two contracts secured by our European business. Our European team is dedicated to tailoring our established UK offering for expansion into the European market, with a particular focus on north-west Europe. We have identified the stakeholders in the market and are building a network with clients, designers and developers. The European team's market knowledge and experience has also been of significant benefit to our UK businesses when tendering for and delivering an increased pipeline of European work.

Order book

The Group's order book has increased to £295m (at 1 June 2019) and includes a diverse range of projects and a good proportion of smaller, lower risk projects.

Significant new orders secured in the year include a number of commercial office developments both in London and the regions, two large data centres (in the Republic of Ireland and Finland), a large project at Heathrow airport and a car park development at Manchester airport. The order book also includes the landmark contract for the new Google Headquarters at Kings Cross.

Pipeline and prospects

The Group continues to monitor the future pipeline of projects currently being tendered. This provides forward visibility of future orders and allows us to make strategic decisions that impact on our production planning and facilities. The Group's current pipeline of contract opportunities is encouraging and includes a range of projects in the commercial office, industrial and distribution, data centre, transport and retail sectors in the UK and Europe.

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, industry, leisure, transport or to provide essential infrastructure.

Core infrastructure sectors

Transport

5-10% ▲
Group market share (for infrastructure including bridges)

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.

Power and energy

<5% ▲
Group market share

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, Cardiff and Covanta (Dublin) Waste to Energy plants, Port of Liverpool Biomass Terminal, Ferrybridge Power Station.

Health and education

5-10% ◀▶
Group market share

We have a long history of providing world-class steel solutions for hospitals and other medical facilities, 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, Manchester University Engineering Campus.

KEY:
Up ▲ Down ▼ No change ◀▶

Core construction sectors

Sector	Description	Successes
Commercial offices **30-40%** ▼ Group market share	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** 22 Bishopsgate, Google UK Headquarters, The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, London Development Project, 60 London Wall, One Crown Place, St Giles Circus Development, Hanover Square Masterplan.
Industrial and distribution **5-10%** ◀▶ Group market share	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 coordination 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, DHL and B&M.
Stadia and leisure **30-40%** ▼ Group market share	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** Wimbledon Centre Court (roof) and No.1 Court roof, Paris Philharmonic Hall, First Direct (Leeds) Arena, Olympic Stadium, Arsenal FC (Emirates Stadium), Liverpool FC (redevelopment of Anfield Stadium), Manchester City FC (south stand redevelopment), Tottenham Hotspur (new stadium).
Retail **20-30%** ◀▶ Group market share	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, Stratford'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.
Data centres and other **10-20%** ▲ Group market share	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** Data centres for Microsoft (Amsterdam) and Telehouse (London).

JSW SEVERFIELD STRUCTURES

India

The Group's joint venture in India, JSW Severfield Structures Limited ('JSSL') is an important part of its overall strategy. The Group holds a 50 per cent shareholding in JSSL alongside its partner JSW Steel Limited ('JSW'), India's largest steel producer.

JSSL also has an interest of 67% in a metal decking business, JSWSMD Limited.

2019 performance

In 2019, JSSL performed strongly and its results are now beginning to reflect the step change in the market for structural steel in India which will drive the success and long-term value of the business. JSSL's order book reflects an expanding overall construction market, greater demand from JSW for its own industrial construction projects, as it increases its steel output, and more significantly, a more successful conversion from concrete to steel in some higher margin healthcare and commercial projects.

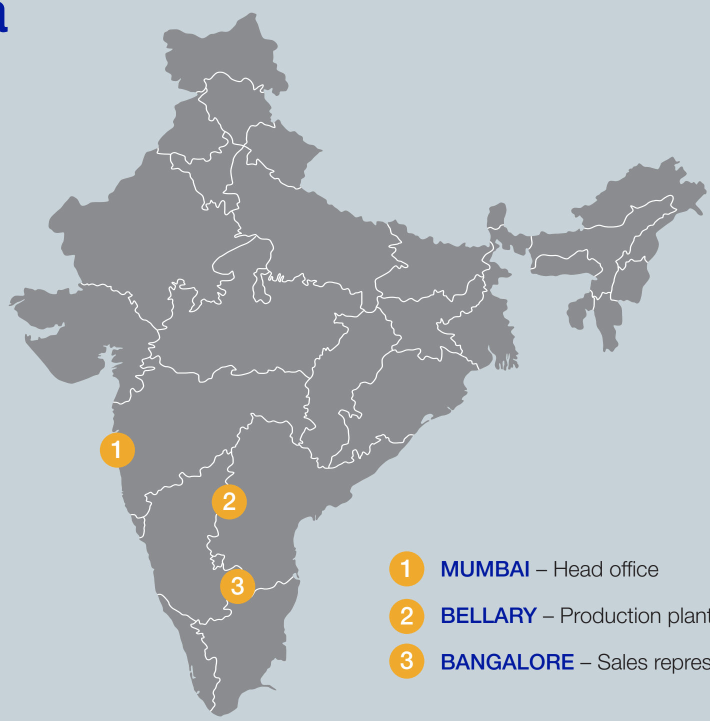
Revenue for 2019 was £84m compared with £46m in the previous year and profit before tax was c.£3m (of which the Group's after tax share was £1.2m) which reflects both increased volumes, good operational performance and lower financing costs following the repayment of JSSL's term debt in June 2017. JSSL's operating margin was 6.4 per cent compared to 9.2 per cent in the previous year reflecting a larger proportion of (lower margin) industrial work in the order book coming into the 2019 financial year. Notwithstanding this, we expect to see an improvement in the operating margin in the 2020 financial year as a result of increased demand for (higher margin) commercial projects reflecting the market developments described above.

Market developments

The Indian economy continues to grow rapidly and the market for construction, and, more importantly for JSSL, for structural steel continues to strengthen and expand. In India:

- GDP growth is strong at c.6 per cent and is moving closer to £3 trillion per annum. It is predicted that GDP will increase to £10 trillion by 2030.
- Various government initiatives such as GST ('Goods and Services Tax'), RERA Act ('Real Estate Regulatory Authority'), a focus on the 'Ease of Doing Business', and improving construction standards such as National Disaster Management Authority guidelines for healthcare construction projects are all helping stimulate construction growth, and more importantly, the use of steel.
- Healthcare and healthcare tourism, accommodation (public and private), smart cities, IT and logistics infrastructure are all expected to grow, and steel is well positioned when benchmarked on speed, space, return on investment, health and safety and green credentials.
- The steel industry overall continues to invest and to grow as it aims to support economic development through the increase in overall indigenous steel output from 115 million tonnes per annum to over 300 million tonnes per annum by 2030. The availability and quality of local steel products will support the JSSL's growth strategy and growth in the wider construction sectors.

India



1 **MUMBAI** – Head office

2 **BELLARY** – Production plant

3 **BANGALORE** – Sales representation and drawing/design office

JSSL

JSSL is well-positioned for future market expansion. Since its inception ten years ago it has built up a reputation as the number one design and build structural steel company in India, providing a full design, fabrication and site construction service. This fully integrated and expert offering gives clients, developers, architects, consultants and contractors confidence that complicated and changing project requirements can be delivered on time and within budget.

Through its performance and know-how, JSSL has established excellent strategic relationships with major construction players, positioning it well for the future.

This has led to a substantially increased order book of £134m which contains a much stronger mix of commercial work. The expanding market position is also reflected in a pipeline of opportunities which also contains a growing large number of potentially interesting commercial projects, together with numerous industrial projects, including those for JSW. This growing business confidence was evident in 2019 with the approval by the joint venture partners of a further expansion of 30,000 tonnes per annum to JSSL's operational site in Bellary, Karnataka. This expansion project is now underway and is expected to be commissioned and operational towards the end of the 2020 financial year, taking total capacity at Bellary to around 90,000 tonnes per annum.

JSSL has also established a network of strategic suppliers and sub-contractors which it continually audits for health, safety, quality and assurance purposes to support the further supply of certain fabricated steel products, all of which contribute to overall revenues.

JSSL's health and safety record is excellent with 2019 another year free of lost time incidents ('LTI'). This is a very pleasing statistic which means that approximately 14 million fabrication and construction hours have been undertaken since the last LTI in 2014, resulting in many certificates and awards from clients and health and safety organisations in India.

During 2019, JSSL continued to deliver complex projects on time and within budget. JSSL's significant projects include:

- Two prestigious hospitals for The National Cancer Institute and for Tata Trusts.
- Large commercial projects for Phoenix Group, Sattva Salarpuria and the Andhra Pradesh State Secretariat.
- Many large industrial projects for JSW.

Current and future operations

JSSL's operations are based on a 65-acre site in Bellary, Karnataka. The plant has been designed to optimise JSSL's product range, quality and productivity, as befitting the demands of the construction industry in India. Incorporating state-of-the-art technology and processing equipment, the plant is managed and operated by a growing workforce containing highly qualified, experienced people. Bespoke plated products and INDISEC® are manufactured on-site offering clients a range of benefits.

Depending on mix, the capacity of the current Bellary facility is c.60,000 tonnes per annum, which is currently being expanded to c.90,000 tonnes per annum. The key characteristics of the plant are as follows:

- The current configuration is two fabrication lines. Four narrower fabrication lines will be added in new factory space, following completion of the expansion. These will service JSSL's target commercial and industrial sectors of multi-mix commercial, offices, healthcare, data centres, retail and the industrial and manufacturing sectors.
- A further INDISEC® plated beam line will be added to our existing two plated beam lines.
- A further bit shop and additional painting facilities will be developed.

Outlook

We are excited by the long-term development of the market and of the business, especially considering the order book growth and expanding market position. We expect value to continue to build in JSSL as it expands and develops.

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 and assisted by our business improvement programme, 'Smarter, Safer, more Sustainable'.

Group strategy

Growth | Clients | India | Operational excellence | People

Smarter, Safer, more Sustainable

Our business improvement programme represents the consolidation of all of the Group's ongoing improvement projects, established to help us deliver the Group's overall strategy. These include improvements in business processes, use of technology, operating efficiencies and new product development, all set within the framework of strong risk management and control.

Smarter	Safer	More 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 WILL DO		
Invest in activities to drive operational excellence, improved efficiency, and quality.	Introduce new technology and equipment that enables safer ways of working.	Invest in technology that reduces our emissions.
WHAT THIS WILL MEAN FOR US		
Further development of our expertise, quality and an improved offering to clients.	Safeguard employees, clients and shareholders.	Care for our environment while building our external reputation.

Read more about **our safety, health and environment strategy** on pages 52 to 56

Read more about **our people strategy** on pages 58 to 61


STUART POWER LTD
TEL: 0845 642 1062

OUR STRATEGY

Group strategy

Strategic pillar	Link to KPIs	Link to principal risk
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	1, 2, 3, 4, 5, 6
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	1, 2, 3, 4, 5, 6
India The Indian business is expanding and its growing order book reflects the step change in the market position.	2, 5	7
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	1, 2, 3, 4, 5, 6
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	1, 2, 8

Key KPIs and principal risk

Key performance indicator reference number

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')

Key to principal risks

1. Health and safety
2. Commercial and market environment
3. Information technology resilience
4. Mispricing a contract (at tender)
5. Failure to mitigate onerous contract terms
6. Supply chain
7. Indian joint venture
8. People

The progress that we have made in delivering our strategy in 2019, together with how this strategy is to be developed further during 2020, 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

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.

Growth in Europe:

continue to build on recent contract wins, to drive growth through our European business and our core business in the UK.

Achievements in 2019

We have grown Group revenue by 36 per cent since 2015 when we first launched our strategic growth target. Our order book currently stands at £295m reflecting our success in winning work from new and existing clients.

We have delivered large, complex projects in the year, including 22 Bishopsgate and the Tottenham Hotspur stadium, and projects of this type remain an area of strength for the Group. We experienced fewer large-contract opportunities (particularly in London) and the current order book now has a higher proportion of smaller, lower risk contracts (including more regional work). Our operational efficiency programme has enabled us to compete successfully for these projects.

During the year, our UK operations and our European business, based in the Netherlands, have successfully secured work in the Republic of Ireland, Sweden, the Netherlands and Finland. The two orders secured by our European business represent its first contract successes and this work will be delivered in 2020.

Severfield (Products & Processing) was launched in the year to provide processed steel and ancillary products to other fabricators who specialise in smaller projects. This new business has gained traction and has established a core customer base. Our fabrication capability has developed and is servicing both internal and external customer requirements.

CMF continued to develop its product offering and grow organically, partially as a result of the additional purlin line which was added in the previous year.

We have continued to tender for opportunities in the market for medium to high-rise residential construction and have developed our knowledge in this new sector. We believe that our offering remains an area of potential growth for the Group.

Objectives for 2020

To further grow Group revenue and maintain the quality of the order book.

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).

Maintain our focus on key sectors in the UK and Europe including commercial offices, industrial, data centres, stadia and transport infrastructure to strengthen and widen our market focus.

We aim to build on the two recent contract wins at Severfield Europe to further develop the opportunity in the European market. We will focus on the current project pipeline to drive incremental growth.

We will build on the first year's performance at Severfield (Products & Processing) by targeting volume growth and improving the operating performance and efficiency of the business.

We will continue to expand the product range and customer base at CMF to drive further organic growth opportunities.

The Group also continues to look for complementary acquisition and investment opportunities which support our plans for growth.

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

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.

Achievements in 2019

We have continued to develop our relationships by working collaboratively with key clients during the year. We take a long-term approach to relationships with our clients, aiming to deliver exceptional quality and service that encourages them to choose us on their next project.

We have worked closely with a number of clients to explore and develop cost-effective solutions to overcome project challenges.

We also focused on developing new client relationships which has resulted in a solid pipeline of opportunities in both existing and adjacent markets.

Objectives for 2020

Continue to deliver a quality, safe and efficient service to our clients.

We will further focus on opportunities to improve client satisfaction and retention and develop strategically important relationships with existing and new clients in our target markets in support of our growth plans.

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.

We will explore innovative and new collaborative ways of working that are mutually beneficial to us and our clients while ensuring that risk and reward are appropriately balanced.

India: The Indian business is expanding and its growing order book reflects the step change in the market position.

Strategic priorities

Expansion in India: our aim is to continue to grow, develop and build value in the business as the market is showing clear signs of the conversion from concrete to steel.

Achievements in 2019

The Indian business has grown its revenue by 80 per cent and reported an improved profitable result in 2019.

The market for structural steel in India continues to expand significantly and this is reflected in an order book which was £134m at 1 June 2019. During the year, the order book has developed to include a higher proportion of projects in the commercial sector, which is typically at a higher margin than contracts in the industrial sector.

The expansion of the Bellary facility has commenced and is expected to be completed towards the end of the 2020 financial year, positioning us well to continue to take advantage of a growing pipeline of both commercial and industrial work.

Objectives for 2020

With an increasing order book and factory capacity, and in an expanding market, we will continue to target a better mix of commercial work to increase operating margins. We will also service industrial projects, including those for JSW Steel which is significantly increasing its domestic steel output.

We will focus on executing the expansion programme effectively without disruption to the core business.

We will continue to invest in and grow the capability of the local team. This includes the development and implementation of a people strategy. We will also grow the in-house design and drawing office capability.

We are confident of the long-term opportunity in the Indian market and we aim to continue to grow profits and build value in the business in 2020 and beyond.

Operational excellence: Our emphasis is on delivering high-quality projects and reducing costs by driving excellence through our core business processes.

Strategic priorities

Drive operational improvements and efficiencies:

the objective of our comprehensive operational improvement programme is to further develop the Group's risk assessment, operational and contract management processes.

Achievements in 2019

Our profit performance in 2019 (underlying PBT was £24.7m) demonstrates further progress towards our 2020 strategic profit target of £26m.

The programme of projects categorised under the banner of 'Smarter, Safer, more Sustainable' continues to provide a framework for the ongoing improvements to our business and factory processes, use of technology and operating efficiencies.

During the year, various initiatives have been progressed, including the application of Lean techniques, further automation of factory processes and waste elimination initiatives.

We have concluded the reorganisation of our factory operations in North Yorkshire and the combined facility is now operating at scale.

We have fully rolled out our new Group-wide production management system (StruMis) to drive value through increased productivity.

Objectives for 2020

Our target remains the achievement of underlying PBT of £26m by 2020.

We will continue with our 'Smarter, Safer, more Sustainable' initiatives to maintain the Group's focus on business improvement and efficiencies. We will continue to optimise processes between factories, production lines and processes.

We will leverage the benefits of the manufacturing arrangements at Dalton to achieve further efficiency improvements and improve volumes.

This improved profitability will continue to generate surplus cash flows and support future dividends, in accordance with the Group's business model.

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.

Achievements in 2019

The Group's improvement programme has included further capital investment in 2019 of £7.0m (2018: £6.4m). The investment in 2019 represents investment in production machinery, site lifting equipment, yard improvements, and factory and site enhancements.

In 2019, we have continued to invest in research and development into advanced technologies (including virtual reality and digital) to further improve efficiencies and client service.

Our engineering forum has continued to look at innovative ways of working, including the use of technology across a number of existing manual processes and enhanced BIM (3D) modelling.

Objectives for 2020

As part of the Group's capital investment programme, we will continue to invest at levels in excess of depreciation.

We will continue to invest in new state-of-the-art manufacturing technology and in our research and development programme to help drive production efficiencies. We have project teams focusing on various areas of development including improving design and drawing office processes, refining our production planning processes, better capturing and utilising real time data, developing collaborative tools to provide real-time support to our project and commercial teams and reducing waste and defects in all our factory processes.

We will continue to upgrade and replace existing equipment where appropriate and to expand the capital equipment base where there is a strong return on investment case.

OUR STRATEGY

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

Develop our people:

our aim is to attract and recruit the right person at every level and to keep them engaged so that we can deliver our goals and customer commitments while maintaining a safe working environment.

Achievements in 2019

In 2019, we focused our graduate programmes on the areas of design, projects and drawing office and we have recruited a number of apprentices and trainees to specialise in welding, fabrication, mechanical engineering, design, information technology and business improvement.

We have a well-established internal communication strategy with information being shared on a regular basis through various channels. This includes timely business updates, an employee newsletter and magazine, important health and safety information and advertised job vacancies.

We treat the safety of our people as our highest priority and have continued to deliver health and safety training and awareness programmes, including further training and awareness in relation to employees' mental health. Our continued focus on health and safety has resulted in an improvement to the Group's accident frequency rate ('AFR') which reduced to 0.11 in 2019 (2018: 0.22).

We have continued to strengthen the organisation's leadership team during the year both at the executive committee level and in the local business leadership teams.

We launched the second wave of the Severfield Development Programme, which focuses on emerging leaders who have the potential to move into senior positions.

We have continued to strengthen our HR team and have commenced a Group-wide programme to develop our people strategy.

Objectives for 2020

We have recently strengthened our HR team, and this will allow us to refresh our people strategy. The HR team will be highly focused on culture, organisational structure, performance assessment and succession planning to ensure that we maximise the benefits of our skilled workforce.

We will implement a strategy to improve diversity and reduce our gender pay gap.

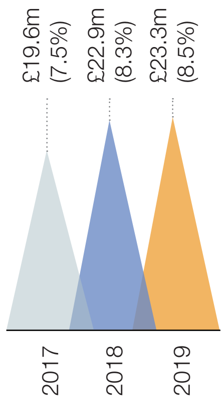
We will launch a further save as you earn ('SAYE') scheme to provide our employees with continued choice in the way in which they participate. This will support buy-in to the long-term success of the business and assist in employee retention.

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 to further improve the Group's AFR, IFR and reduce 'near miss' and high potential incidents. We will engage with our clients' senior safety teams to ensure that we take all steps to reduce injuries.

We will continue to seek and exploit opportunities for increasing employee engagement including the launch of a Group-wide intranet.

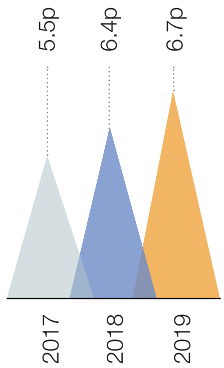
KEY PERFORMANCE INDICATORS

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



Strategic pillar

2 Underlying* basic earnings per share (‘EPS’)



Strategic pillar

Why this is important

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.

How we calculate

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.

Our performance

Underlying operating profit (before JVs and associates) has increased by two per cent, driven by the Group’s ongoing focus on operational efficiency and commitment to production process improvements.

What we target

Our target is to double 2016 underlying profit before tax by 2020 and continue to grow our profits thereafter.

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

Why this is important

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.

How we calculate

EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.

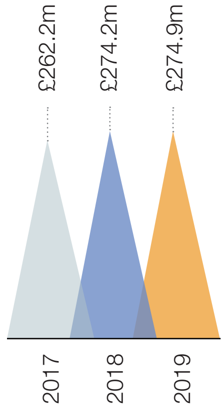
Our performance

EPS growth was five per cent, positively impacted by the increase in the Group’s profit before tax.

What we target

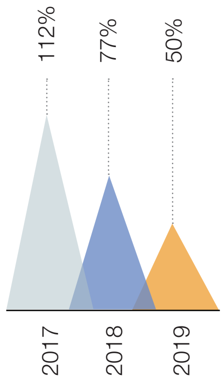
Our aim is to maximise sustainable EPS growth.

3 Revenue growth



Strategic pillar

4 Operating cash conversion



Strategic pillar

Why this is important

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.

How we calculate

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.

Our performance

The Group's revenue is at a nine-year high, reflecting a solid performance in 2019 given the current softer market conditions experienced across the industry.

What we target

To grow revenue year-on-year in line with our strategic objectives.

Why this is important

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.

How we calculate

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).

Our performance

Operating cash conversion was 50 per cent. Despite our continued focus on working capital management, operating cash conversion has been impacted by movements in the phasing of contract cash flows and a normalisation of working capital following the unusually low working capital position coming into the financial year (two per cent of revenue).

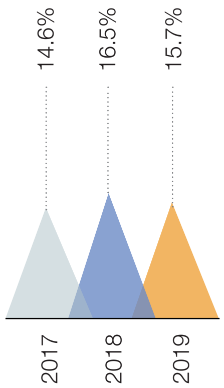
What we target

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.

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

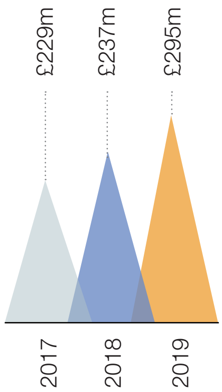
KEY PERFORMANCE INDICATORS

5 Return on capital employed ('ROCE')



Strategic pillar

6 Order book



Strategic pillar

Why this is important

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.

How we calculate

ROCE is calculated as underlying operating profit divided by the average of opening and closing capital employed (note 20).

Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds (note 25).

Our performance

In 2019, our ROCE is 15.7 per cent, which continues to exceed the Group's target of 10 per cent.

What we target

We aim to deliver ROCE which is in excess of 10 per cent over the whole economic cycle.

Why this is important

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.

How we calculate

Our UK order book shows the total value of future revenue secured by contractual agreements.

Our performance

The UK order book has increased by 24 per cent since June 2018. This solid order book position will help the Group deliver its strategic objectives.

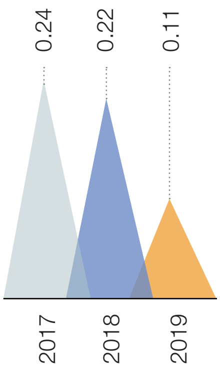
What we target

We aim to maintain a good quality order book which supports the achievement of our strategic targets.

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

7 Accident frequency rate ('AFR')



Strategic pillar

Why this is important

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.

How we calculate

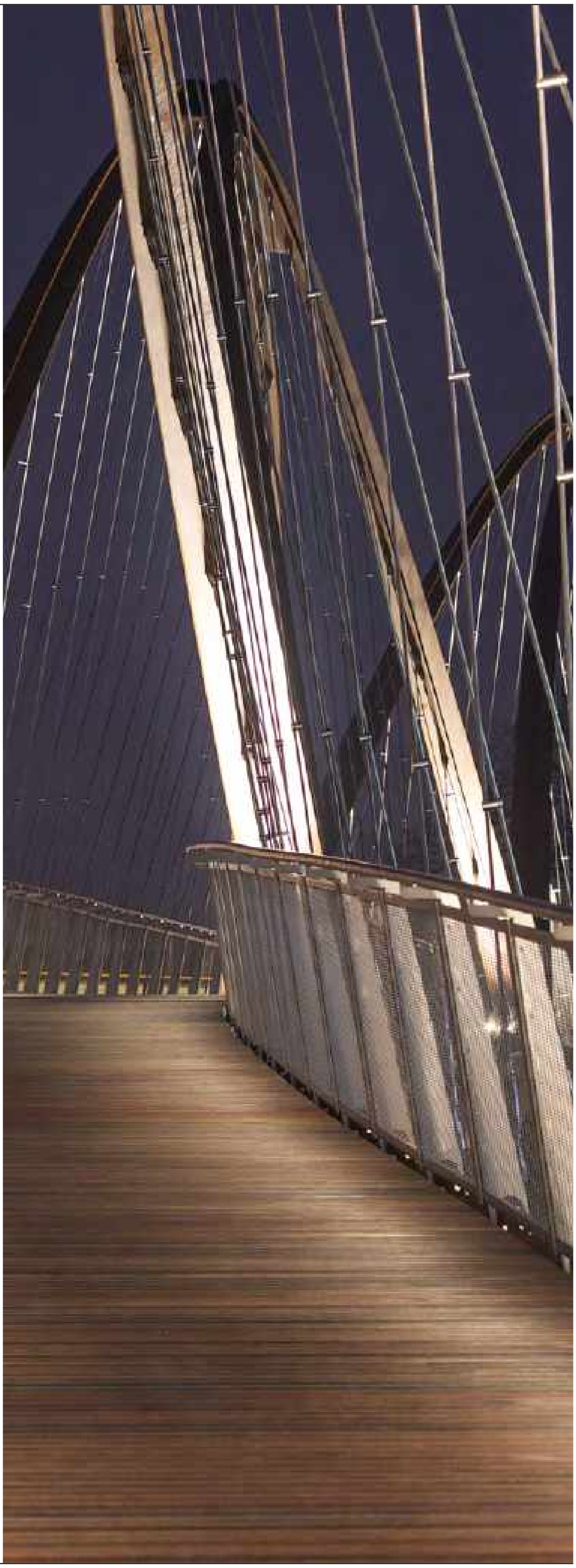
AFR is equivalent to one reportable lost-time incident resulting in more than three working days' absence per 100,000 hours worked, which equates to approximately one working lifetime.

Our performance

The AFR has improved by 50 per cent since 2018 and was well within the 2019 target of 0.21. This reflects the improvements made in the year through our reduction and prevention of incidents programme, which focused on increasing employee involvement and management accountability.

What we target

We are committed to a target of zero injuries.



OUR OPERATING PERFORMANCE

Operating Review

"We are pleased to have delivered another year of good performance and we remain on track to deliver on our strategic targets."

Alan Dunsmore
Chief executive officer

Group overview

The Group has delivered a good set of results in 2019, with further profit growth in the UK assisted by strong project delivery and ongoing improvements in operational performance, together with improved profitable performance from our Indian joint venture.

In 2019, we have continued to grow our overall profitability with underlying profit before tax up five per cent to £24.7m (2018: £23.5m) against a particularly strong profit performance in the prior year, which included higher than normal profits from certain project completions in the first half of 2018. This improved profit performance has been achieved despite slightly softer market conditions in the UK.

Cash remains one of the main measures of our underlying financial performance and our year-end net funds of £25.1m (2018: £33.0m) reinforces our solid balance sheet and provides us with a competitive benefit with both clients and our supply chain. Our strong cash position has allowed us the flexibility to fund the 2018 special dividend and to continue to invest in our UK businesses and in India, where the expansion of the Bellary factory is now underway.

The Indian joint venture ('JSSL') has performed well in 2019. The market for structural steel in India continues to expand as evidenced in JSSL's order book of £134m (1 November 2018: £124m) and a growing pipeline of commercial and industrial opportunities, which will benefit the business in 2020 and beyond. JSSL's good operational performance, revenue growth and lower financing costs, following the repayment of the term debt, have resulted in a Group share of profit after tax of £1.2m (2018: £0.5m) which is now beginning to reflect the step change in the Indian market position.

We continue to exceed our return on capital employed ('ROCE') target of 10 per cent and have achieved a return of 15.7 per cent in the year (2018: 16.5 per cent), maintaining the Group's alignment with its construction and engineering clients and peers.

We have made good progress during the year towards our strategic targets, including the doubling of 2016 underlying profit before tax to £26m by 2020. Based on this progress, the board has recommended a final dividend of 1.8p per share, making a total for the year of 2.8p per share (2018: 2.6p per share), an eight per cent increase on the prior year.

UK and Europe

Revenue was broadly flat year-on-year, mainly as a result of the softer UK market conditions and some project delays, to both contracts within the order book and in the conversion of our pipeline of opportunities, which predominantly impacted volumes in the second half of 2019. During the year, we continued to work on three large projects in London, each of which had project revenues in excess of £20m. These comprised a new commercial tower at 22 Bishopsgate, the new stadium for Tottenham Hotspur FC and the retractable roof for Wimbledon No. 1 Court, all of which are either now complete or substantially complete.

The underlying operating margin (before JVs and associates) was 8.5 per cent (2018: 8.3 per cent) resulting in an underlying operating profit (before JVs and associates) of £23.3m (2018: £22.9m). Although underlying operating profit shows a moderate increase year-on-year, it was against a strong comparator in the prior year, which included higher than normal profits in the first half from certain project completions.

The UK margin performance continues to reflect better risk and contract management processes, which are now deeply embedded within the Group's methodologies, and improvements in our operational execution. This includes the benefits from our programme of projects categorised under the banner of 'Smarter, Safer, more Sustainable' which provides a framework for the ongoing improvements to our business and factory processes, use of technology and operating efficiencies.

'Smarter, Safer, more Sustainable'

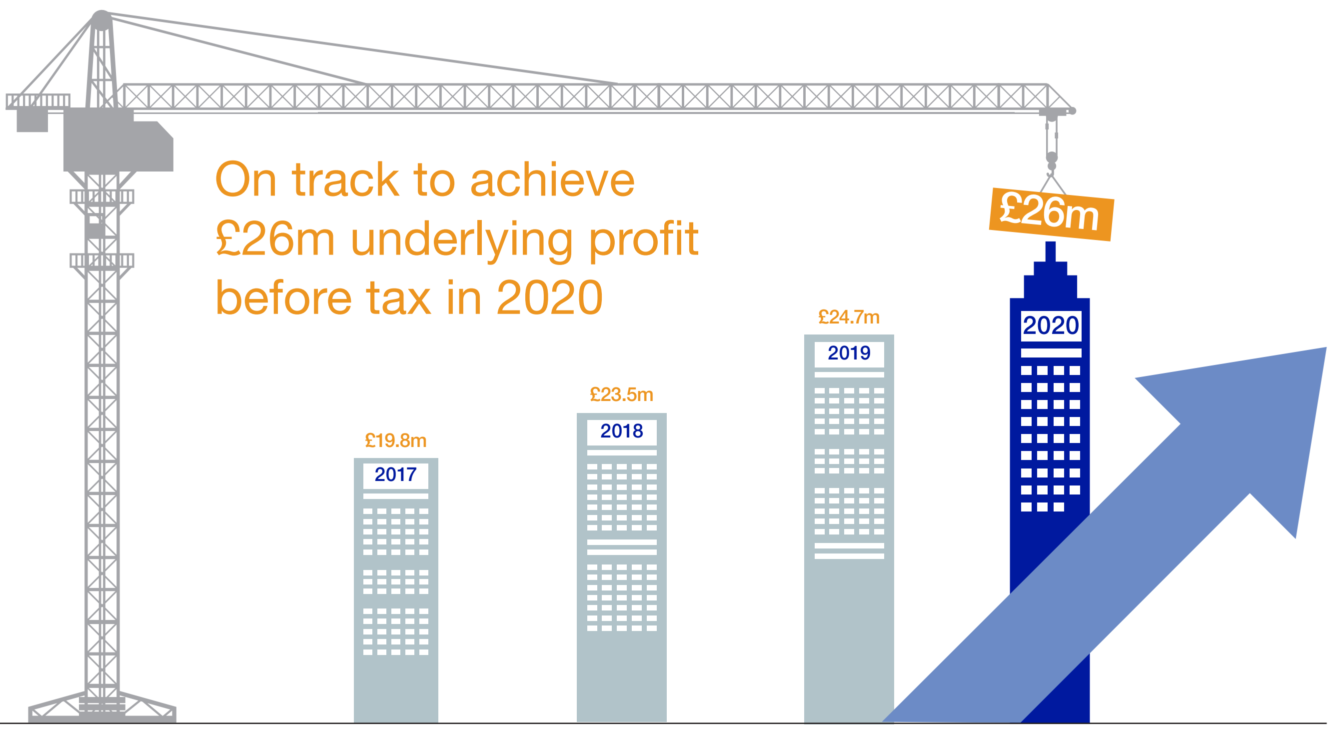
Our 'SSS' initiatives continue to focus on improving many aspects of our internal operations. These include the application of Lean manufacturing techniques, further automation of factory processes and waste elimination initiatives, together with our engineering forum which is looking at new and innovative ways of working including the use of technology across a number of existing manual processes and enhanced BIM (3D) modelling.

During the year, we have continued to invest in research and development into advanced technologies (including virtual reality and digital technologies) to further improve efficiencies and client service. We have also now fully rolled out our new Group-wide production management system (StruMIS) which will help drive ongoing value through increased productivity coupled with greater transparency and assurance.

Following the improvements to our IT infrastructure and manufacturing processes over recent years, we are also continuing to take steps to better capture and utilise real-time data, to better inform decision-making and improve efficiencies both in our factories and on our construction sites. This will minimise time spent manually collating and processing data, freeing up resource to focus on project delivery and facilitating more streamlined ways of working.

In January 2018, we reorganised our factory operations in North Yorkshire to drive further operational improvements, resulting in the consolidation of steel fabrication at Dalton and Sherburn into the Dalton facility. This combined facility is now operating at scale and the reorganisation of our footprint has contributed to increased operational efficiencies which are benefitting the Group's profitability.

Building from a strong foundation



OUR OPERATING PERFORMANCE

Underpinning our culture of continuous improvement is the ongoing focus on human resources and the training and development of our people and our priority is to recruit, train and retain the highest calibre of workforce. Throughout the year we have continued to strengthen our leadership at both executive committee and at business unit levels and we are in the process of refreshing our Group people strategy. We continue to work with industry bodies and have developed initiatives to encourage people into a career in construction. During 2019, the Group recruited a number of apprentices, graduates and trainees, another means of ensuring that we have all the desired skill bases available in the future.

In 2019, demonstrating our ongoing commitment to people development, we launched the second wave of the Severfield development programme, which focuses on emerging leaders who have the potential to move into senior positions. We have also continued to develop and support our people to apply Lean manufacturing techniques to develop new skills, achieve new qualifications and, as part of the 'Smarter, Safer, more Sustainable' initiative, continually improve our businesses and client offering.

Order book and market conditions

The order book of £295m at 1 June 2019, represents an increase of £65m from the position of £230m at the time of announcing the half-year results and will generate higher production and therefore revenue in the second half of the 2020 financial year. Pleasingly, this increase in the order book has been achieved whilst maintaining our focus on contract selectivity to ensure that the Group wins work only at acceptable terms and conditions and with acceptable levels of risk.

The order book, of which £256m is for delivery over the next 12 months, continues to contain a high proportion of lower risk, regional projects with shorter lead times. In addition, our order book continues to include the new Google Headquarters, for which an order of £50m was secured in December 2017, and which will require us to provide over 15,000 tonnes of structural steelwork for an 11-storey head office building at Kings Cross. Work on this project commenced late in the 2019 financial year and is scheduled to be substantially completed in the 2020 financial year.

The order book contains a healthy mix of projects across a diverse range of sectors including commercial offices, industrial and distribution, data centres and transport infrastructure. In 2019, our teams have been successful in securing a number of projects in the regions including mid-sized commercial office developments in Manchester and Nottingham, together with several other office developments in London. Other significant orders secured in the year include a large project at Heathrow airport, a car park development at Manchester airport and two large data centres in Finland and the Republic of Ireland. We have also had success in continental Europe with our new European business and, accordingly, the order book now includes the first orders secured by the European team based in the Netherlands.

Overall, the UK market continues to appear largely stable, with modest economic growth forecast, however we have seen evidence of some UK investment decisions being delayed in some of our market sectors, particularly in the second half of the year against a backdrop of a generally more cautious commercial investment climate. Pricing remains an important factor and we continue to see some tender margins tightening on projects that we are bidding, particularly in the UK where some spare fabrication capacity now exists in the market. The impact of these UK market conditions is being mitigated by the continued re-emergence of the market in the Republic of Ireland and certain other significant opportunities in continental Europe where we have demonstrated our ability to win more work, supported by our new European business.

In general, our pipeline of potential future orders remains stable with a good balance of work across all key market sectors. The market for data centres and the industrial and distribution sector continues to be strong, both in the UK and in Europe, and these projects play to our strengths, requiring high-quality, rapid throughput, on-time performance and full coordination between stakeholders.

Looking further ahead, we are now starting to see more bidding activity in the London commercial market, a trend which we expect to increase over the next few years. In addition, we continue to pursue a number of significant infrastructure opportunities, particularly in the transport sector, which are being driven by the UK Government's investment in infrastructure commitment, which is targeted to increase over the next few years. This will include projects such as HS2 (both stations and bridges) and the expansion of Heathrow airport. In addition, we also see good opportunities from the Government's ongoing Network Rail and Highways England investment programmes. The combination of the Group's historical track record in transport infrastructure, together with our in-house bridge operations, leaves us well-positioned to win work from such projects, all of which have significant steelwork content.

The Group is working with industry bodies to identify and manage any challenges and opportunities which may result from the UK's exit from the European Union. Being a largely UK-centric business, no changes have been required to our operating model, however we continue to monitor the pace of conversion of our pipeline of opportunities and, among other things, the availability of materials from our suppliers. While there remains a great deal of uncertainty as to what Brexit will mean for the construction industry, we are scenario-planning and working with our clients and others in the industry to ensure we are able to respond to any future changes in market conditions.

Clients – increasingly broad spread and diverse

We are known for our strong relationships with clients, working collaboratively with them, anticipating issues they face, providing problem-solving solutions and demonstrating our capability to deliver complex engineering solutions. Our management and integration of the construction process, our capacity and speed of fabrication, our engineering excellence and the expert capabilities of the Group and its employees has allowed us to improve project delivery times to meet and exceed the requirements of our clients.

OUR OPERATING PERFORMANCE

We believe that working more closely with our clients provides the best outcomes and is critical to securing new work. We continue to work with a number of clients to use innovative and collaborative ways of contracting which have enabled risk and reward to be appropriately shared and to explore and develop cost-effective solutions to overcome project challenges. These arrangements require early contract engagement with clients to ensure greater clarity around scope, programme and cost which, in combination, reduces delivery risk for all parties.

During the year we have focused on developing new client relationships both in the UK and also in Europe, where we are gaining good traction with our new European business. We believe that a stronger and wider client base and market focus will allow us to target an increased pipeline of opportunities, providing us with extra resilience and the ability to increase our market share.

Our client base, which represents a broad range of sectors and regions, includes Balfour Beatty, BAM, Bowmer and Kirkland, Buckingham, Canary Wharf Contractors, Ferrovial Agroman, Fluor, Galliford Try, H.B. Reavis, Hitachi, ISG, John Graham, John Sisk, Kier, Laing O'Rourke, LendLease, Mace, Morgan Sindall, McLaren, McLaughlin & Harvey, Multiplex, Readie, Sir Robert McAlpine, Skanska, Stanhope, TSL, Vinci, Volker Fitzpatrick, Winvic and Westfield. The Group worked on over 100 projects with our clients during the year including:

Major projects – over £20m	• Wimbledon (No. 1 Court roof), London • Tottenham Hotspur FC, London • 22 Bishopsgate, London • Google Kings Cross, London
Commercial offices	• St Giles Circus, London • 80 Fenchurch Street, London • Snowhill, Birmingham • Central Square, Cardiff • One Braham, London • 60 London Wall, London
Industrial and distribution	• Large distribution centres, East Midlands and Darlington • Large warehouses, Wixam and Lutterworth
Transport infrastructure	• Chiswick Bridge, London • Ely Southern Bridge, Cambridgeshire • M20 Road Bridge, Kent • Luton Viaduct, Bedfordshire • Multi-storey Car Park, Manchester Airport
Data centres	• Data centres in Dublin, Belgium and Finland
Health and education	• Manchester Engineering Campus Development

Our specialist cold rolled steel joint venture business, CMF, has continued to grow and has performed well during the year. We are the only fabricator in the UK to have both a hot and cold rolled manufacturing capability. We continue to look at ways to improve factory efficiencies at CMF and to expand the product range, which now includes a growing purlin business, allowing the Group to continue integrating elements of its supply chain.

Following extensive negotiations with all stakeholders, we have now agreed a final settlement for the remedial bolt replacement works at Leadenhall, resulting in no further costs for the Group.

India

JSSL performed strongly in 2019 and its results are now beginning to reflect the step change in the market for structural steel in India. The Indian market has continued to expand, and we are seeing clear signs of the conversion of the market from concrete to steel which will drive the success and long-term value of the business. This position is evident in an order book at 1 June 2019 of £134m (1 November 2018: £124m) which now contains a stronger mix of higher margin commercial work. Significant new orders secured in the year include two large commercial projects – Sattva, in the state of Hyderabad, and Amaravati, in the state of Andhra Pradesh, together with numerous industrial projects, many of which are for our joint venture partner, JSW Steel ('JSW'). The expanding market position is also reflected in a pipeline which includes a growing large number of potentially interesting commercial projects for key developers and clients with whom we are now developing strong relationships. In addition, we also have visibility of an increased pipeline of industrial work, including those for JSW, which is currently expanding its domestic steel output, a process which we expect to continue for the foreseeable future.

In 2019, JSSL continued to grow and has increased its profit during the year, of which the Group's after tax share was £1.2m (2018: £0.5m). The higher profitability in the year reflects both increased revenue and good operational performance, together with lower financing costs following the repayment of the term debt in June 2017. JSSL's revenue has increased significantly to £84m compared with £48m in the previous year, driven by higher volumes of industrial work in 2019, a position which was also manifest in the higher order book coming into the financial year. This greater mix of industrial work has resulted in a reduction in the operating margin to 6.4 per cent compared to 9.2 per cent in 2018, however, given the greater proportion of commercial work in the current order book, we expect to see an improvement in the operating margin in the 2020 financial year and beyond.

The expansion of the Bellary facility, which will increase factory capacity from c.60,000 tonnes to c.90,000 tonnes, is now well underway and is expected to be completed towards the end of the 2020 financial year. During the year, JSSL has strengthened its senior management team, enhanced and expanded its subcontracting supply chain partnerships and is upskilling its workforce, bringing people with new skills into the business to support the expansion and to provide the business with the springboard to deliver future profitable growth.

Overall, we remain excited about the long-term development of the market and of the business, especially considering the encouraging market developments and step up in the order book and we expect that value will continue to build in JSSL as it continues to expand and develop.

Safety

Health and safety continue to be at the forefront of everything we do and, for the third year running, we have seen an improvement in our overall safety performance. The Group's accident frequency rate ('AFR') for the year, which includes our Indian joint venture, was 0.11, compared to 0.22 in 2018, mainly driven by our UK operations which reduced its AFR from 0.40 to 0.21 during the year. As a recognised measure of safety performance, our AFR not only reflects how we do business but is a key differentiator in the market. Indeed, safety is becoming increasingly important for our clients at the selection stage.

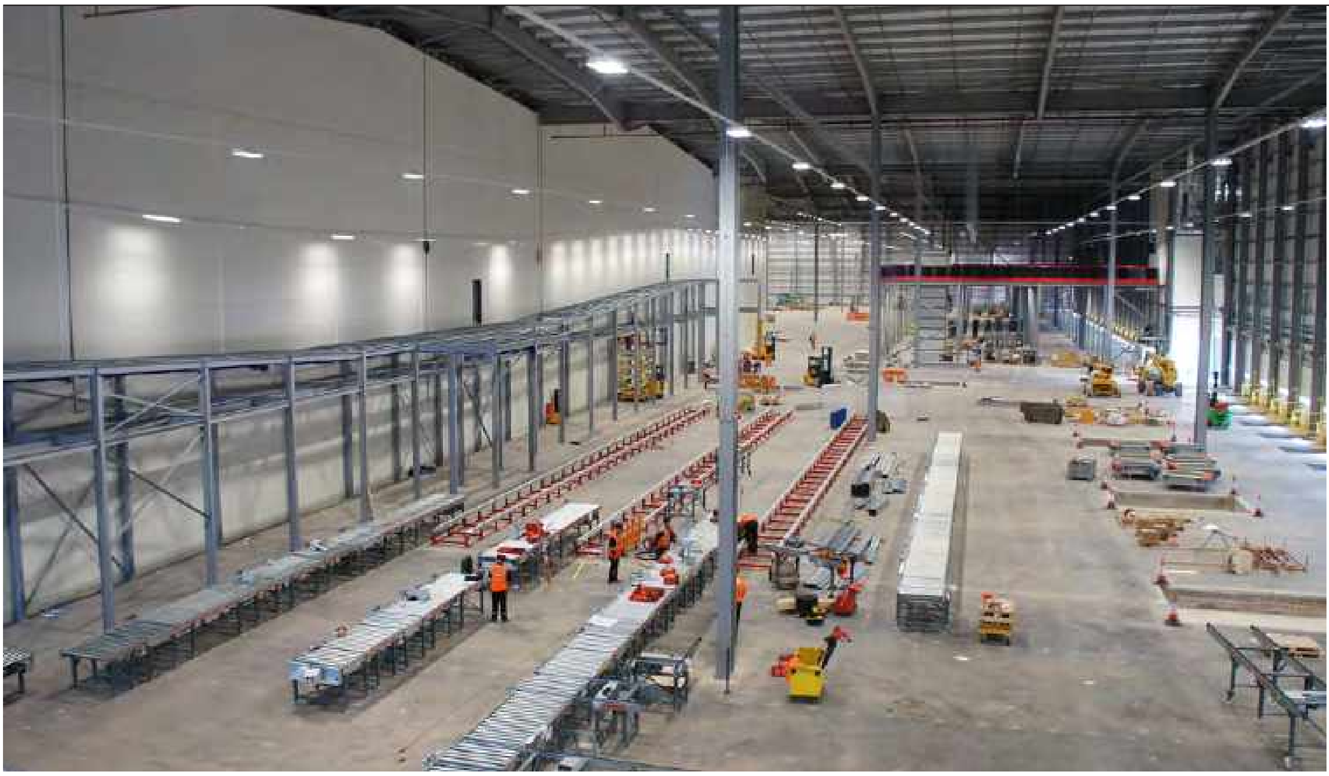
Our executive committee is focused on continually promoting and improving our safety culture. Reviews of safety performance are conducted monthly, with emphasis on not only RIDDORs but also high potential near miss incidents and minor injuries. All high potential incidents are investigated and resolved by our businesses, in conjunction with the Group SHE director, chief operating officer and the relevant managing director.

Behavioural safety continues to be an integral part of improving our safety culture and our behavioural safety coaches are empowered to encourage ownership of safety across all levels of the business. Escalating the programme to the senior management team has promoted better ownership and accountability and has allowed us to further embed our 'safety first' values and to see positive tangible changes in our culture.

Board members are engaging with employees on our 'six life-saving rules' and promoting our safety campaigns with positive results. The number of visits to site by board members has increased year-on-year and the content of these visits has been enhanced, encouraging suggestions for improvement and the sharing of best practice across the Group. Building on senior management's responsibility for safety, our management teams now deliver quarterly presentations which include 'lessons learned' from recent incidents and the reinforcement of our safety values.

In raising awareness of mental health, our internal 'heads up' campaign has now become embedded in our culture. Our commitment to mental health and well-being stems from a strong recognition of our responsibility to provide a safe working environment, which transcends physical health and actively promotes the importance of mental health and well-being. As an organisation, we have a responsibility to take care of each other and ourselves. Promotion of positive mental health is continual, and help is accessible to all with our 24-hour employee assistance line. All our employees have now attended an awareness session to assist them in understanding the signs and symptoms of poor mental health.

OUR OPERATING PERFORMANCE



Sustainability as a topic continues to be more prevalent within the Group. Employees are becoming more and more aware of what impact they can have on shaping our future, and making our business 'Smarter, Safer and more Sustainable'. Suggestions for sustainable improvements across the business are collected from colleagues and implemented where appropriate. Employees are given opportunities to support local and national charities through our social and charitable committees, creating better community relationships. The Group encourages employees to continue developing their skill sets through both our internal learning and development programmes, and through the achievement of appropriate professional qualifications. Apprenticeships are encouraged throughout the business, and we work closely with local college and university communities to attract the best and most diverse talent.

Strategy

We are continuing to deliver on our strategic objectives including making good progress towards our 2020 strategic profit target. In 2019, as part of the ongoing 'Smarter, Safer, more Sustainable' programme, we have continued to implement a number of operational, factory and technological improvements and supply chain enhancements as well as continuing to invest in our leadership teams and people to ensure we are well placed to capture the opportunities presented by our markets. The improvement in our safety performance during the year will also benefit future performance and productivity.

During the year, the continuation of the Group's capital investment programme, which includes new state-of-the-art, high-speed and high-performance equipment for our UK factories, is helping our operating businesses to be highly competitive and operationally efficient. We will continue to invest £6m to £7m per annum to support the development of our client service offering and to drive operational improvements and efficiencies.

Over the last two years, we have been targeting three new areas of organic growth – Europe, Severfield (Products & Processing) ('SPP') and medium to high-rise residential construction – and we are pleased to report good progress with the first two of these potential areas of growth.

Firstly, we have continued to develop our European business, which is based in the Netherlands, aided by a small but growing locally-based team which includes our business development director. During the year, the business has been successful in securing its first orders which will generate incremental revenue for the Group in the 2020 financial year. The business also has a number of live tenders for work in continental Europe and there is now a growing pipeline of opportunities which includes many potentially interesting and high-quality projects, certain of which are with clients with whom we are used to working with in the UK. The European team's market knowledge and experience has also been invaluable to our UK business when tendering for and delivering an increased pipeline of European work, providing us with a competitive advantage and the ability to deliver excellent client service as we look to expand into new market sectors.

Secondly, SPP, our new business venture at the Sherburn facility, commenced trading in April 2018. This business is allowing us to address smaller scale projects and provides a one-stop shop for smaller fabricators to source high-quality processed steel and ancillary products. Notwithstanding the slightly softer UK market conditions, which have resulted in a lower than expected number of enquiries in the second half of the year, the business has secured and successfully delivered a number of orders to a variety of new customers. During this time, we have also gained more intelligence on both our competitors and customers in what is clearly a competitive and lower margin marketplace. Notwithstanding this, we remain focused on improving our factory efficiency, client service and range of products and continue to develop our customer relationships and pipeline of potential future orders to enable us to increase our market share.

In addition, we have also maintained our focus on the market for medium to high-rise residential construction where we have developed a steel solution. We continue to see potential opportunities in what is an attractive market for us and discussions with a number of interested parties remain ongoing. We continue to push hard to secure our first order, which we believe will be an important step in establishing a track record in what is currently a concrete-dominated market sector.

Summary and outlook

The Group has performed well in 2019, with good profit and margin growth in the UK, where we continue to see tangible benefits from our 'SSS' business improvement initiatives, coupled with a strong performance from our Indian joint venture. While market conditions in the UK have been more challenging recently, the impact of this is being offset by an improved picture in the Republic of Ireland and in Europe and with an order book of £295m and a stable pipeline of opportunities, we expect 2020 to be another year of progress for our core businesses in the UK.

In India, with the expansion of the operations in Bellary now underway, a record order book of £134m and a growing level of new opportunities which includes a number of interesting commercial projects, our joint venture business remains well-positioned to take advantage of a market for structural steel which continues to expand.

There is now considerable positive momentum within the Group which, in combination with our cash generative nature and strong positions in our core markets, provides us with the platform for further operational and strategic progress. We remain on track to deliver on our strategic targets, including the doubling of 2016 underlying profit before tax to £26m by 2020 and we look forward to another positive year ahead.

Finally, I would like to thank all of our employees for their hard work and commitment during the year. The success of our business is without doubt dependent on their continued support.

Alan Dunsmore
Chief executive officer
19 June 2019

OUR FINANCIAL PERFORMANCE

> The 2019 result demonstrates further profit progression and improvements to our operational execution.

Adam Semple
Group finance director

Read more about **Group financials** on pages 132 to 168

Read more about **Company financials** on pages 170 to 176

	2019	2018
Revenue	£274.9m	£274.2m
Underlying* operating profit (before JVs and associates)	£23.3m	£22.9m
Underlying* operating margin (before JVs and associates)	8.5%	8.3%
Underlying* profit before tax	£24.7m	£23.5m
Underlying* basic earnings per share	6.7p	6.4p
Operating profit (before JVs and associates)	£23.3m	£21.5m
Profit before tax	£24.7m	£22.2m
Basic earnings per share	6.7p	6.1p
Return on capital employed ('ROCE')	15.7%	16.5%

*The basis for stating results on an underlying basis is set out on the highlights page. 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 this report to describe the Group's underlying performance.

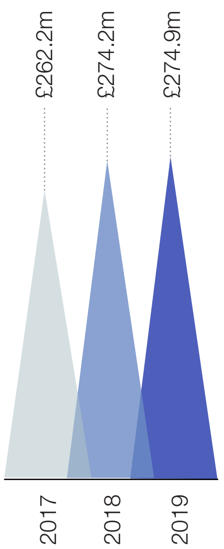
Trading performance

2019 has been another successful year for the Group. Revenue for the year ended 31 March 2019 of £274.9m represents a slight increase of £0.7m compared with the previous year reflecting a solid performance in the UK in light of softer market conditions, which particularly impacted the second half of the year. The Group's order book at 1 June 2019 of £295m represents an increase of £65m from the position at the time of announcing the half-year results (1 November 2018: £230m) and will generate higher production and therefore revenue in the second half of the 2020 financial year.

Underlying operating profit (before JVs and associates) of £23.3m (2018: £22.9m) reflects an increase of £0.4m over the year. This mainly reflects a higher underlying operating margin (before JVs and associates) of 8.5 per cent (2018: 8.3 per cent) against a particularly strong margin comparator in 2018, which benefited from higher than normal profits from certain project completions. The 2019 margin demonstrates further margin progression and improvements to our operational execution. The Group continues to maintain a high level of focus on operational efficiency through better risk and contract management processes

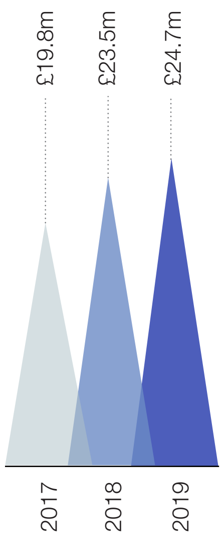
Revenue

£274.9m



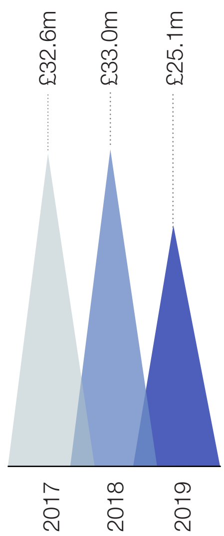
Underlying* profit before tax

£24.7m



Net funds

£25.1m



as well as driving process improvements in the Group's production facilities. There were no non-underlying items in the year and accordingly no difference between underlying operating profit (before JVs and associates) and its statutory equivalent of £23.3m (2018: £21.5m).

The share of results of JVs and associates was a profit of £1.7m (2018: £0.9m) and net finance costs were £0.2m (2018: £0.2m).

Underlying profit before tax, which is management's primary measure of Group profitability, was £24.7m (2018: £23.5m). The statutory profit before tax, reflecting both underlying and non-underlying items, was £24.7m (2018: £22.2m).

Share of results of JVs and associates

The Group's share of results from its Indian joint venture was a profit of £1.2m (2018: £0.5m) with the improved result due to both good contract performance together with lower financing costs. The operating margin has decreased to 6.4 per cent (2018: 9.2 per cent) reflecting a significantly higher mix of (lower margin) industrial work in the order book coming into the 2019 financial year. The current order book now shows a higher proportion of commercial work, reflecting the award of several large commercial orders in 2019, which will benefit the operating margin in the 2020 financial year.

Our specialist cold rolled steel joint venture business, CMF, contributed a Group share of profit of £0.4m (2018: £0.4m). The business has continued to develop its product range, having expanded its metal decking supply to allow the production of purlins and additional cold formed products in 2018 to drive organic revenue growth. We continue to be the only hot rolled steel fabricator in the UK to have this cold rolled manufacturing capability.

Non-underlying items

Non-underlying items are classified as such as they do not form part of the profit monitored in the ongoing management of the Group. There were no non-underlying items in the current financial year (2018: £1.3m). The charge in the prior year represented the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007 and are now fully amortised.

Finance costs

Net finance costs in the year were £0.2m (2018: £0.2m). The Group has been in a net funds position for the whole 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.

Taxation

The Group's underlying taxable profits (which excludes results from the JVs and associates) of £23.1m (2018: £22.6m) resulted in an underlying tax charge of £4.5m (2018: £4.4m), which represents an effective tax rate of 19.7 per cent (2018: 19.4 per cent).

OUR FINANCIAL PERFORMANCE

Earnings per share

Underlying basic earnings per share increased by five per cent to 6.7p (2018: 6.4p) based on the underlying profit after tax of £20.2m (2018: £19.1m) and the weighted average number of shares in issue of 303.1m (2018: 299.7m). Basic earnings per share, which is based on the statutory profit after tax, was 6.7p (2018: 6.1p), this growth reflects the increased profit after tax and a reduction in non-underlying items. Diluted earnings per share, including the effect of the Group's performance share plan, was 6.6p (2018: 6.0p).

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, while maintaining a good underlying net funds position on the balance sheet.

The board is recommending a final dividend of 1.8p per share (2018: 1.7p), payable on 13 September 2019 to shareholders on the register at the close of business on 16 August 2019. This, together with the Group's interim dividend of 1.0p per share (2018: 0.9p), will result in a total dividend per share for 2019 of 2.8p (2018: 2.6p), an increase on the prior year of eight per cent.

The final dividend is not reflected on the balance sheet at 31 March 2019 as it remains subject to shareholder approval.

A special dividend of 1.7p per share was recommended for the previous financial year, which was approved by shareholders and paid during the current financial year.

Goodwill and intangible assets

Goodwill on the balance sheet is valued at £54.7m (2018: £54.7m). In accordance with IFRS, an annual impairment review has been performed. No impairment was required either during the year ended 31 March 2019 or the year ended 31 March 2018.

Other intangible assets on the balance sheet are recorded at £nil (2018: £0.1m). Amortisation of £0.1m (2018: £1.5m) was charged in the year.

Capital investment

The Group has property, plant and equipment of £84.0m (2018: £81.2m).

Capital expenditure of £7.0m (2018: £6.4m) represents the continuation of the Group's capital investment programme. This included investment in production machinery, site lifting equipment, yard improvements, and factory and site enhancements. Depreciation in the year was £3.6m (2018: £3.7m).

Joint ventures

The carrying value of our investment in joint ventures and associates was £24.3m (2018: £18.5m) which consists of the investment in India of £16.1m (2018: £10.7m) and in CMF of £8.2m (2018: £7.8m). During the year, we invested additional equity of £4.2m in the Indian joint venture business (matched by an equivalent investment by our joint venture partner JSW Steel) to support the expansion of the Bellary facility.

Pensions

The Group has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £20.0m at 31 March 2019 (2018: £17.2m). The increase in the liability is mainly due to:

- changes to the scheme's demographic assumptions (updated mortality assumptions and a lower proportion of members assumed to take tax-free cash at retirement, based on broader trends in the pensions market); and
- changes to the scheme's financial assumptions (lower discount rate and higher RPI price inflation assumption, both of which increased liabilities).

The impact has been partly offset by the ongoing deficit contributions by the Group during the year. The last formal triennial funding valuation of the scheme was completed, with a valuation date of 5 April 2017. All other pension arrangements in the Group are of a defined contribution nature.

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 defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2019, ROCE was 15.7 per cent (2018: 16.5 per cent), which exceeds the Group's target of 10 per cent through the economic cycle.

Cash flow

The Group has always placed a high priority on cash generation and the active management of working capital. The Group ended the financial year with net funds of £25.1m (2018: £33.0m), following capital expenditure of £7.0m, the payment of the 2018 special dividend of £5.2m and the investment of additional equity into the Indian joint venture of £4.2m.

	2019	2018
Operating cash flow (before working capital movements)	**£25.8m**	£26.7m
Cash generated from operations	**£18.0m**	£23.0m
Operating cash conversion	**50%**	77%
Net funds	**£25.1m**	£33.0m

Operating cash flow for the year before working capital movements was £25.8m (2018: £26.7m). Net working capital increased by £7.9m mainly due to movements in the phasing of contract cash flows and a normalisation of working capital following the atypically low working capital position (two per cent of sales) coming into the year. Excluding advance payments, year-end net working capital represented approximately five per cent of revenue (2018: two per cent). This is within the four to six per cent range which we have been targeting, reflecting our continued focus on working capital management.

In 2019, our cash generation KPI shows a conversion of 50 per cent (2018: 77 per cent) of underlying operating profit (before JVs and associates) into operating cash (cash generated from operations less net capital expenditure). This is below our target conversion of 85 per cent largely as a result of the increase in working capital as described above.

Net investment during the year was £6.3m (2018: £5.4m), reflecting capital expenditure of £7.0m (2018: £6.4m) less proceeds from disposals of £0.7m (2018: £1.0m).

Bank facilities committed until 2023

On 31 October 2018, the Group refinanced its existing borrowing facilities of £25m with HSBC Bank plc and Yorkshire Bank. This new facility, also a £25m revolving credit facility ('RCF'), matures in October 2023. The facility continues to include an accordion facility of £20m, which allows the Group to increase the aggregate available borrowings to £45m at the Group's request.

The facility is subject to two key financial covenants, namely net debt: EBITDA of <2.5×, and interest cover of >4×. The Group operated well within these covenant limits throughout the year ended 31 March 2019.

Due to the continued net funds position of the Group, the facilities were not utilised during the year and continue to provide ongoing funding headroom and financial security for the Group.

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 forward contracts are taken out to convert into sterling at the expected date of receipt. The Group adopts hedge accounting for the majority of transaction hedging positions, thereby mitigating the impact of market value changes in the income statement.

New accounting standards

IFRS 15 – in the prior year, the Group undertook a detailed exercise comparing the existing revenue recognition policies against the requirements of IFRS 15, the new revenue accounting standard which is effective for the current financial year. This assessment involved 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 conclusion of the assessment was that the directors are satisfied that no material adjustments were required on the initial application of the new standard. The standard has been implemented with full retrospective application in the financial statements. Additional disclosures, as required by IFRS 15, are incorporated into the financial statements.

OUR FINANCIAL PERFORMANCE

IFRS 16 – during the current financial year, the Group assessed the impact of adopting IFRS 16, the new leasing standard which becomes effective for the 2020 financial year. The adoption of IFRS 16 will result in a right-of-use asset of approximately £11m and a lease liability of approximately £12m being brought onto the Group's balance sheet (based on the Group's leases as at 1 April 2019). The profit impact of the adoption of this new accounting standard is not expected to be material.

Impact of Brexit

Following the UK referendum vote to leave the European Union ('EU'), the UK Government continues to negotiate the terms of the UK's future relationship with the EU, which has led to a period of economic uncertainty. The Group has taken steps to prepare for the potential outcomes of Brexit and has plans in place to ensure it can continue to deliver on current and future contractual commitments.

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 2020 financial year and beyond;
- The Group's net funds position and its bank finance facilities which are committed until October 2023, including both the level of those facilities and the covenants attached to them.

Based on the above, 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 date of 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 2016 revision of the UK Corporate Governance Code (the 'Code'), the directors have carried out a robust assessment of the principal risks and uncertainties and assessed the Group's viability over a three-year period ending on 31 March 2022. The starting point in making this assessment was the annual strategic planning process. While this process and associated financial projections cover a period of four 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 October 2023.

The directors assessed the potential financial and operational impact of possible scenarios resulting from the crystallisation of one or more of the principal risks described in the annual report as well as taking into consideration recent issues (such as recent corporate failures and the uncertainties caused by the UK's pending exit from the EU) that are relevant to the industry sector in which the Group operates. In particular, the impact of a reduction in margin of 25 per cent, a reduction in revenue of 25 per cent, a deterioration in working capital (the extension of customer payment terms by one month), a period of business interruption (two months with no factory production) and a significant one-off event resulting in a cost to the Group of £15m. 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.

Adam Semple
Group finance director
19 June 2019

BUILDING A SUSTAINABLE BUSINESS

Our sustainable business strategy is driven by our values and our strategic objectives to ensure that we operate responsibly and ethically. Our 'Smarter, Safer, more Sustainable' business improvement programme was developed to help us in achieving the Group's overall strategy.

Smarter, Safer, more Sustainable

Our **Smarter, Safer, more Sustainable** programme illustrates how our commitment to sustainability underpins our business model and strategy. We believe that investing in our improvement projects, training and technology to empower our people to work in a **Smarter, Safer, more Sustainable** way will assist us in securing our future as market leader in structural steel.

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

At the heart of our sustainable business strategy is our intention to focus on the following priorities, namely our safety, health and environmental strategic goals, the development and engagement of our people and our impact on our community.

SMARTER, SAFER, MORE SUSTAINABLE
securing our future

Safety, health and environment

We remain committed to our people and the well-being and safety of our employees, clients, suppliers, subcontractors and the public is vital to the continued success of the Group and is a key differentiator in the market.

A principal aim of the board is to continue to ensure that, through example and encouragement, we behave ethically and responsibly, particularly in the fields of health, safety and environmental management. Our 'safety first' value remains at the core of all areas of the business as many of our activities continue to be potentially dangerous. All aspects of safety, health and environment remain a fundamental and integral aspect of the business.

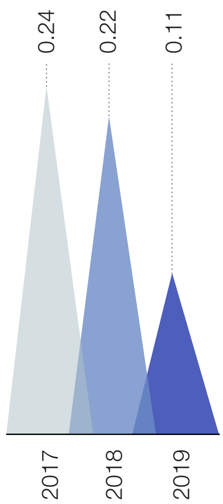
It is encouraging to see that our health and safety performance has, for a third consecutive year, continued to improve with an accident frequency rate ('AFR') of 0.11, which includes an AFR of 0.21 for our UK operations. In the previous year, in order to further support our reduction and prevention of incidents programme, we introduced the additional monitoring mechanisms of total incident frequency rate ('IFR') and high potential incident rate ('HiPo'). All high potential incidents are reported across the Group to learn lessons from each individual case and to identify measures to prevent reoccurrence. All such incidents are also investigated and resolved in conjunction with the Group SHE director, chief operating officer and relevant managing director.

Severfield's health and safety management system conforms to BSEN ISO 45001, being one of the first in the industry to successfully make the migration from OHSAS 18001 in December 2018.

Our health and safety policies are underpinned by four main aims, namely a fair and safe way of working, no incidents that harm people, industry-leading occupational health and carbon footprint reduction. These establish the areas that are essential to achieving our main goal, namely, to ensure that all employees enjoy a safe working environment, with no exceptions.

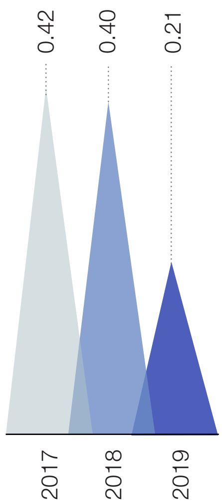
Group AFR

0.11
(2018: 0.22)



UK operations AFR

0.21
(2018: 0.40)



Strategic aims

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.

We have continually recognised good safety, health and environmental ('SHE') practices across the Group by acknowledgements and rewards alongside promotion of such within our internal newsletters.

The introduction of our six life-saving rules (which include rules for working at height, lifting operations, machine safety, vehicle movements and material stability) in 2018 clearly communicated our expectations around high-risk areas of our day-to-day operations to further prevent incidents. These rules further underpin our 'just and fair' culture within the behavioural safety programme.

No incidents that harm people

We continue to improve the facilities and working environment in all our factories in addition to engaging with our clients to improve site conditions and working areas. The focus for our factories within 2019 was raising awareness of Hand Arm Vibration ('HAV') issues and implementing a change in both the tools that we use, and the way in which we use them, to combat the signs and symptoms and reduce the overall risk to our employees.

The Group is committed to instilling cultural change within the business. One of the ways we are championing this is through our unique behavioural safety programme. The programme has been particularly successful within the factories where coaches are given an hour a week to 'step outside' their usual working areas to visibly engage with colleagues where they highlight best practice and resolve any issues which have arisen. Employees are more confident and passionate than ever in proactively reporting and resolving issues with coaches and their management teams.

After the initial success of the programme we have seen volunteer uptake increase over the last year. Continuing into 2020, an ownership and accountability session is to be delivered to all senior managers to facilitate the ownership of key safety messages, sustain the focus on behavioural safety and to emphasise the crucial role of safety coaching that is deeply embedded within the Severfield culture.

During the year, 126 directors' site tours were undertaken. These have shown a clear commitment and drive for SHE policies across all areas of the business, led by our executive management team. Building on senior management's responsibility for safety, our management teams now deliver quarterly presentations which include 'lessons learned' from recent incidents and the reinforcement of our safety values.

The Group prides itself on being industry-leading in all aspects of its business and training is no exception to this. We have delivered over 2,800 SHE training courses during the year with an average number of SHE training days per employee at 1.8 (2018: 2.0). Training focus in 2019 was to streamline our internal provision, creating targeted courses specific to employees' requirements. Following the introduction of a mandatory training matrix within 2018 we surpassed our internal target of 95% compliance, ensuring that our workforce have the correct, relevant skills to complete their jobs. Research into our training provision is underway, with a refreshed training strategy expected to be in place during the 2020 financial year.

We offer National Vocational Qualifications to a vast majority of our workforce, the administration and coordination of which is dealt with by an in-house team of vocational experts. This team allows us to efficiently deal with amendments within the industry awarding bodies including the Engineering Construction Industry Training Board ('ECITB') and the UK Metal Decking Association ('UKMDA'), through the year without relying on external sources. Our focus for 2020 will be on changes to our site team's qualification requirements in line with revised industry standards.

Industry-leading occupational health

The Group firmly believes that employees and their families should be supported in all aspects of their lives, not just within working hours.

We signed the Building Mental Health Charter in the summer of 2018, pledging to raise awareness and promote mental health. Internally we have recruited and trained almost 60 mental health first aiders who are now equipped to spot the signs of poor mental health and signpost for assistance where required. The success of this campaign has been demonstrated by the fact that many employees have requested to undertake the training since being made more aware of mental well-being.

During the year, a 24-hour confidential employee assistance helpline was established providing support for a range of common concerns including financial worries, family issues and much more.

Throughout 2020, we will continue to proactively assess our occupational health provision and management to ensure it is robust and effectively designed. This will reduce healthcare costs, increase productivity, reduce absenteeism, enhance employee morale, attract and retain high-quality employees and create a positive return on investment.

BUILDING A SUSTAINABLE BUSINESS

Carbon footprint reduction

Sustainability as a topic continues to be more prevalent within the Group. In 2019, we have reviewed and refocused our sustainability policy to better reflect our values, the impact they can have on shaping our future and making our business 'Smarter, Safer and more Sustainable'. Suggestions for sustainable improvements across the business are collected from employees and implemented where appropriate.

We remain dedicated to minimising the environmental impact of our business through sustainable practices and continuous improvement of our environmental performance. Work has begun on our phase 2 ESOS submission, focusing our attention on air compression and lighting within our factories.

We continue to be accredited with the Gold Membership Standard of the Steel Construction Sustainability Charter.

Sustainability committee

Our sustainability committee targets continue to include the following:

- 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 greenhouse gas ('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.

During 2020, sustainability targets will be further refined and a five-year roadmap will be created enabling us to lower our environmental impact year-on-year by following a strategic plan, focusing not only on carbon footprint reduction but how sustainability affects the business as a whole.

Climate disclosure project

The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds. In 2019, we achieved a B rating for the global evaluation standard, the Climate Disclosure Project ('CDP'), above the industry average rating (both in the UK and Europe) of B-.

The annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emission reductions, as well as transparency and verification of reported data. It assesses the completeness and quality of the Group's measurement and management of carbon footprint, climate change strategy, risk management processes and outcomes. Focus for the future includes assessing our Scope 3 impact and working with our suppliers to reduce this figure.

Environmental performance

The Group maintains its environmental management system accreditation to ISO 14001:2015. Information on our environmental impact is collated monthly and is reported to the board. All our factories and 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 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.

In 2019, our combined Scope 1 and 2 emissions have decreased by 15 per cent from the previous year. Streamlining our business over the last 12 months has allowed us to run our factories more efficiently. As a result, our gas and electricity usage has significantly decreased in the year at all our locations, despite Group production increasing. This has allowed us to decrease Scope 1 emissions by 11 per cent and our Scope 2 emissions by 22 per cent from the previous year. Our intensity measurement per £m of revenue has decreased by 16 per cent from 39.8 CO_2e to 33.5 CO_2e.

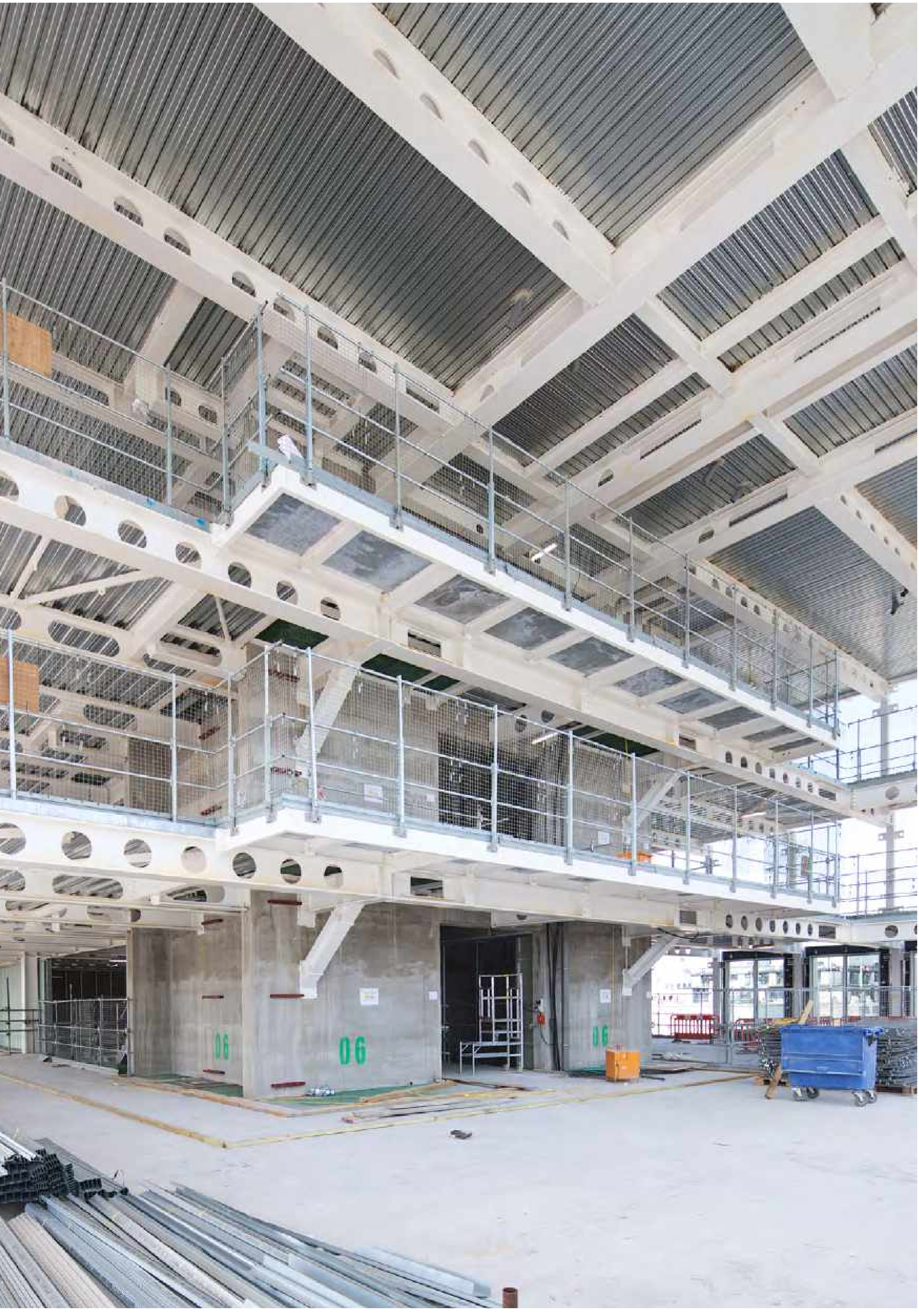
We will continue to review our carbon emissions going forward and assess any reduction programmes which will further reduce our carbon footprint where possible.

For the year ended 31 March 2019, the Group's global GHG emissions were as follows:

	Tonnes of CO_2e	
Emissions from:	**2019**	2018
Scope 1 – combustion of fuel and operation of facilities	**5,582**	6,244
Scope 2 – electricity, heat, steam and cooling purchased for own use	**3,641**	4,667
Total CO_2e emissions	**9,223**	10,911

Intensity measurement:	**2019**	2018
Absolute tonnes equivalent CO_2e per £m of revenue	**33.5**	39.8

In 2020, the Group will continue its relentless focus on safety, health and environmental issues, ensuring that through example and encouragement, we operate ethically and responsibly in everything we do.


06
06
06

BUILDING A SUSTAINABLE BUSINESS

Innovation

The Group is committed to collaboration, working towards the achievement of our customers' objectives as well as our own.

We are focused on continually improving our offering to our customers, through developing innovative products and services, which will deliver 'Smarter, Safer, more Sustainable' outcomes and create additional value for our stakeholders. This requires agile and dynamic employees who are skilled in new and emerging digital technologies and are prepared to challenge conventional processes. We are committed to upskilling our people or recruiting new talent to meet this challenge.

During 2019, our focus has been on removing complex and repetitive activities from our projects by rethinking design, fabrication and construction. By introducing Lean principles across the business, this has led to improvements in our design, fabrication and construction processes from end to end. Our engineering forum has continued to research and develop innovative ways of working, including the use of technology across a range of existing manual processes and enhanced BIM (3D) modelling. We are driving forward new technology, working closely with software suppliers and collaborating with them to develop new innovative offerings where gaps in the market have been identified.

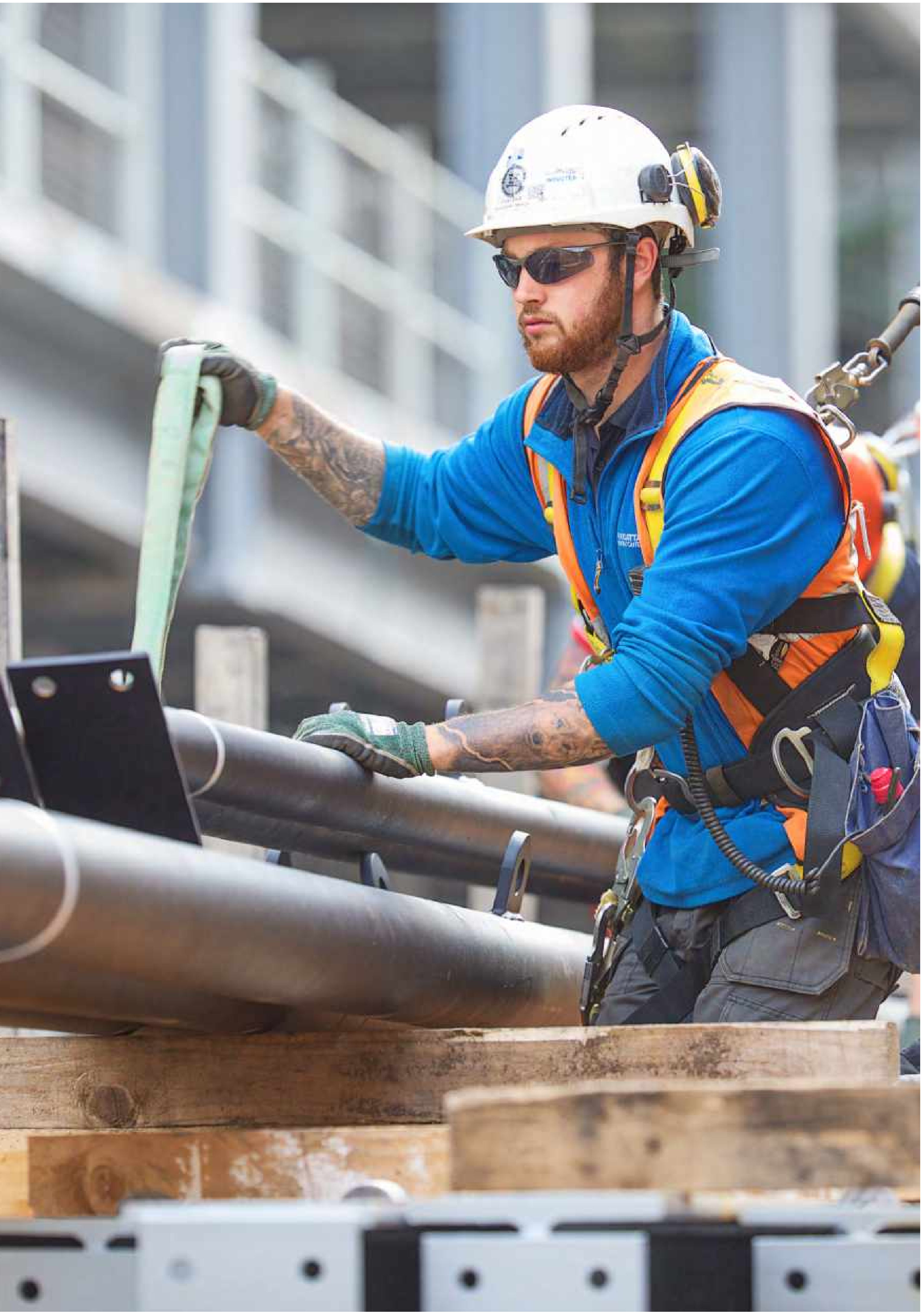
Following improvements to our IT infrastructure over recent years, we are also continuing to take steps to better capture and utilise real time data, to better inform decision-making and improve efficiencies both in our factories and on our construction sites. This will reduce time spent manually collating and processing data, freeing up resources to focus on project delivery and better ways of working.

Quality and accreditations

The Group is committed to providing our clients with the best possible service and protecting our workforce and to support this we have developed a range of appropriate management systems. Each system is managed in-house and regulated through external third-party assessment certification using recognised bodies. This gives us the confidence that customer requirements are recognised and delivered as well as providing the reassurance that we are properly trained and qualified to carry out our contractual and partnership obligations.

Quality (including welding quality systems), environmental, and health and safety management systems are approved by the BCSA, Steel Construction Certification Scheme ('SCCS') and The Welding Institute ('TWI'). Additionally, our information management systems are certified by The British Standards Institute ('BSI') and registration under the Qualified Steelwork Contractors Scheme provides extra confidence to our customers.

All of the Group's manufacturing facilities are CE marking compliant (certified to BS EN 1090:2) to meet the requirements up to Execution Class 4. Accordingly, our clients can be assured that their steelwork is supplied in compliance with the latest legislation and is manufactured to a level of quality that is second to none.



BUILDING A SUSTAINABLE BUSINESS

The Group recognises the importance of a clear people strategy to the delivery of its overall Group strategy and the need to identify, retain and motivate people with the right skills, experience and behaviours.

Our people

The development and engagement of our people is a key focus of the Group, as they are the heart of our business and vital to the success of our vision and the achievement of our strategic goals. The attraction of the best and brightest talent, their engagement, development, reward and recognition are critical to building a sustainable and profitable business for the future.

In 2019, we have continued to focus on HR and are in the process of refreshing our people strategy.

Attract:
we will attract the best and brightest talent

Throughout the year we have maintained our focus on attracting, recruiting and retaining talent within our industry and we have recruited 183 new colleagues across a range of Group functions.

We have a passion for assisting people to make the move into the construction sector, especially school leavers and university graduates with degrees in sector-relevant disciplines. In 2019, we recruited a number of graduates focused on the areas of design, projects and the drawing office. A core part of our future development plans involve the recruitment and education of apprentices and trainees, and we have recruited over 30 such employees to specialise in fabrication, welding, mechanical engineering, design, information technology and business improvement.

Other programmes we have invested in during the year have included project management, Lean, continuous improvement and the development of future leaders, as well as supporting individuals who are undertaking qualifications and membership of professional bodies such as the Institution of Civil Engineers (‘ICE’), the Institution of Structural Engineers and The Royal Institution of Chartered Surveyors.

Equal opportunities and diversity

We are an equal opportunities employer and are committed to encouraging diversity and eliminating discrimination in both our roles 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 potential. We are committed, wherever practicable, to achieving and maintaining a workforce that broadly reflects the communities in which we operate. We continue to monitor our recruitment and promotion policies and practices to ensure that they are free of bias and discrimination.

The structural steel and construction industries continue to be male-dominated, particularly in senior leadership roles that attract higher levels of pay. This is reflected in our second gender pay gap report, which we recently published for our two business units that are in scope of the legislation. Our report, which shows a median gender pay gap of 32.2% (Severfield (UK)) and 26.9% (Severfield (NI)), demonstrates why the encouragement of females into the Science, Technology, Engineering & Mathematics (‘STEM’) subjects throughout school and university, and as an ongoing career choice, remains so important for us as a business and our industry as a whole. During the year, we have collaborated with schools and colleges in the vicinity of our business locations and have participated in a number of events to promote the industry further. We are confident that our gender pay gap is not due to paying men and women differently for the same or equivalent work.

Engage and perform:
we will engage and manage our people to give their best everyday

Over the past 12 months we have continued our focus on internal communications and have worked to increase engagement levels throughout our workforce. We have continued to publish our Steel Reel newsletter and our quarterly employee magazine, Skyline and, as a result, we have seen more colleagues sharing their stories and achievements with us. We have also developed a Group-wide intranet, which is expected to go live across the Group in early summer.

In 2020, internal communications and employee engagement will continue to be areas of focus for the Group and we will encourage our employees to use our internal communication channels to celebrate Group successes.

June 2018 marked the launch of our third Save As You Earn (‘SAYE’) scheme, allowing colleagues to become shareholders in our business. Currently, 59 per cent of our colleagues participate in our Share Incentive Plan (‘SIP’) and SAYE scheme, which we see as a positive indication of their engagement in the business.

BUILDING A SUSTAINABLE BUSINESS

Reward and recognise:
we will reward and recognise people who demonstrate our values and contribute to the achievement of our goals

Across the Group we offer remuneration packages at rates that are competitive within our marketplace. These focus on cash and variable pay, which includes an annual Group profit and safety-related bonus that encourages the achievement of our strategic objectives.

We monitor and ensure that all direct colleagues in the UK are paid above the UK living wage, with London-based colleagues paid more than the living wage for this area.

All of our colleagues are eligible to participate in the Severfield plc defined contribution pension scheme. Colleagues also have the option to make their own contributions through salary sacrifice. We continue to offer the collective benefits that become available through the Group's participation in schemes such as cycle to work, childcare vouchers and a discount scheme.

We are proud that, during the year, 13 people marked their 25-year anniversary of service to the Group. We currently have over 100 colleagues in service who have been employed by the Group for 25 years or longer.

Develop, grow and lead:
we will support our people to achieve excellent performance and continually develop their skills

As well as our apprentice and trainee programmes, we have focused our development budget on a number of key areas, including the development of leadership skills and graduate programmes.

The development of leadership skills continues to be important to us, and as such, a range of courses remain available to those who are keen to develop their capability either within their current role or in preparation for a future opportunity. Topics covered include effective communication, coaching, assertiveness, presentation and influencing skills, as well as an introduction to management.

In 2019, we have also focused on our ICE-accredited graduate programme. This provides graduates from technical and engineering disciplines with opportunities to gain experience across all areas of our business, which is supported with third-party secondments where appropriate. Through this scheme our graduates gain a broad skill set that is beneficial to them as individuals and us as an organisation, as well as working towards chartered membership of the ICE.

In 2019, we launched the second wave of the Severfield Development Programme, which focuses on emerging leaders who have the potential to move into senior positions. This is an externally-facilitated development course designed to fast-track our internal talent and prepare them for future opportunities. It has an emphasis on leadership skills and personal impact, as well as developing the participants' strategic and commercial acumen. The programme encourages cross-functional working and exposure to numerous aspects of the wider business in order to expand the horizons and opportunities of participants. The programme also involves the completion of a business improvement project that is sponsored and reviewed by the executive committee.

On an individual-needs basis we have also continued to offer 360-degree feedback and access to external coaching support.

We are currently reviewing our learning and development offering as part of the process to refresh our overall people strategy.

Well-being:
we will promote health and well-being to our people

Ensuring colleague well-being and fitness for all safety-critical roles is vital for our business, as is the general health of everyone in the Group.

All colleagues have the opportunity of a health check through access to occupational health services and we have continued our successful programme of promoting the importance of mental health. Our support structure of an employee helpline, mental health first-aiders and the utilisation of trained counsellors has been enhanced by awareness-raising sessions that have been made available to all colleagues.

Business integrity

Human rights

We remain committed to protecting and respecting the human rights of our colleagues and those who work throughout our supply chain. As a company operating within the UK, the key human rights issue we face is equality, which we address with training and promoting inclusivity.

The duties placed on us by the Modern Slavery Act are such that we make a public statement regarding the steps we have taken to minimise the possibility of slavery or human trafficking happening within our businesses or supply chain. Details of our approach to managing these risks can be found in our Modern Slavery Act transparency statement on the Company's website.

General Data Protection Regulations ('GDPR')

The harmonisation of data protection legislation across Europe through GDPR is designed to protect all EU citizens' data privacy. We take our obligations under this legislation seriously, and as such, have a number of practices in place to ensure the careful handling of individuals' personal information.

The Severfield Foundation

The Severfield Foundation ('the Foundation'), our registered charitable incorporated organisation, has continued to be a great success during the year, from raising funds and awareness for several local and national charities to encouraging engagement among our employees.

In September 2018 we concluded our partnership with our first national partner charity, Prostate Cancer UK. Throughout the two-year partnership, the Foundation raised over £100,000 with the final amount of £70,000 being presented to the charity in November 2018.

Along with supporting our national charity partner, the Foundation also worked with several nominated local charities for each of our company subsidiaries including Bolton Hospice, St Catherine's, Thirsk Community Care, Yorkshire Air Ambulance, RNLI, Action Mental Health and Start 360.

From 1 October 2018, the Foundation began a new two-year partnership with Alzheimer's Society. Dementia is the UK's biggest killer, recently overtaking heart disease. Last year, the disease claimed the lives of over 70,000 people and as yet there is no known cure. Around 850,000 people in Britain are living with dementia, which is expected to rise to over one million by 2025, with the majority having Alzheimer's disease – the most common type.

The Foundation has committed to work with, and support, the charity over the next two years by raising funds, spreading awareness and by taking part in volunteering opportunities. This includes events such as the Great North Run, London to Paris Cycle, the Great North Swim and skydiving.

In addition to the charitable activities offered through the Group, we also encourage our employees to take part in their own fundraising events, supporting charities close to their hearts, and The Severfield Foundation aims to support such activities where possible.

HOW WE MANAGE RISK

Our key focus areas for 2019

Brexit

We continue to monitor potential risks and uncertainties posed by the UK's pending exit from the EU. We identified Brexit as an emerging risk last year and this year we continue to classify the specific risks of an unfavourable Brexit outcome, within our principal risks (see 'commercial and market environment' below). We continue to monitor developments closely and specific risks and related mitigations are kept under review by the executive committee.

Cybersecurity

Another area of focus has been cybersecurity risk and we have continued to invest in additional security to seek to mitigate the risk and impact of a significant security breach (see information technology resilience below).

Our priorities for 2020

Some of our priorities this year will be:

- continued development and implementation of plans to ensure the best possible outcomes to the uncertainty as to what Brexit will mean for our sector;
- the continued roll-out of our new project risk management framework ('PRMF') to ensure consistency and good practice across the Group in managing project risk;
- continued focus on staff engagement and culture in order to maintain good industrial relations; and
- embedding our new supply chain accreditation process across the Group.

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 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, while accepting and recognising a risk and 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.

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.

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. This includes emerging risks such as the ever-changing nature of the risks that we characterise as 'information technology resilience' and Brexit risk, classified within 'commercial and market environment'.

The audit committee, on behalf of the board, formally reviews principal and emerging 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, emerging 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, and environmental, social and governance ('ESG') issues.
- Identified risk and emerging 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.
- 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. In doing so they identify emerging risks. 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 chief executive officer, 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 coordinate 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.

Group board

Risk appetite

First line of defence

Management activity

Divisional boards

Internal controls:

- Project management procedures
- Health and safety
- Financial control
- Cash and working capital management

Second line of defence

Group oversight

Group policies

- Group authorisation policy
- Contract sign-off process
- Purchase guidelines
- Quality manual
- SHE policies

Committees

- Executive committee, risk committee and safety leadership team
- Audit committee
- Nominations committee

Third line of defence

Independent review

Divisional boards

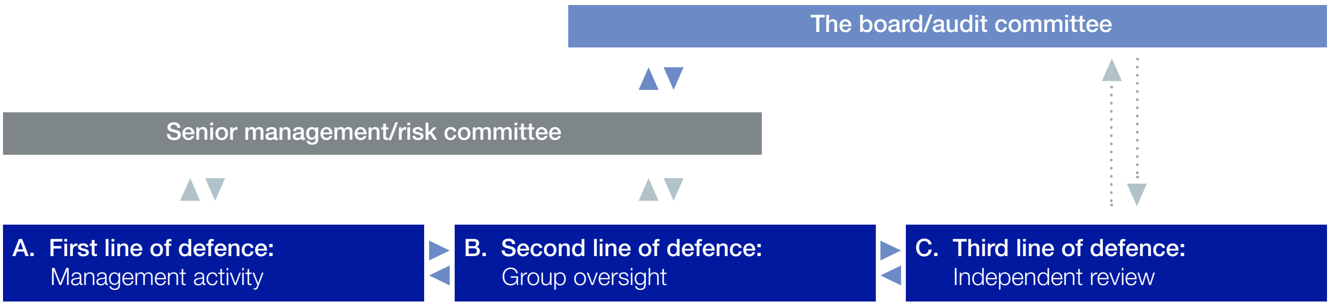
Internal controls:

- External audit
- Internal audit
- Other third-party assurance

HOW WE MANAGE RISK

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 Group's policies and procedures are continuously under review and improved to ensure they are adequate for our current circumstances.

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.

In 2019 we developed a project risk management framework ('PRMF') to ensure consistency and good practice across the Group in managing project risk. This will continue to be rolled out in 2020.

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.

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 were audited successfully on our ISO 27001 accreditation for our information security management system. This continues to give further assurance as to the Group's resilience to cyber risk, which is a subject that has also been discussed at main board level.

These policies are supported by statements of compliance from all directors and letters of assurance ('LoA') from the Group's four 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.

Changes to principal risks

The following changes have been made to the Group's principal risks in 2019:

- **Brexit** risk (the risk that an unfavourable Brexit outcome has a negative impact on our commercial and market positions) was added as a new risk to our Group risk register in 2019 and has been included in the risk category 'commercial and market environment' and classified as a high risk.
- **Industrial relations** risk (industrial action taken by employees could interrupt production and impact Group and contract performance) has been downgraded from medium to low risk and is no longer regarded as a principal risk due to our improved workforce and union engagement and new HR policies and procedures to address this risk.

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.

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
1 Health and safety	Growth, Clients, Operational excellence, People	1 2 3 5 6 7	No change	High
2 Commercial and market environment	Growth, Clients, Operational excellence, People	1 2 3 4 5 6	Upward trend	High
3 Information technology resilience	Growth, Clients, Operational excellence	1 2 4 5	Downward trend	Medium
4 Mispricing a contract (at tender)	Growth, Clients, Operational excellence	1 2 3 4 5 6	No change	Medium
5 Failure to mitigate onerous contract terms	Growth, Clients, Operational excellence	1 2 3 4 5	No change	Medium
6 Supply chain	Growth, Clients, Operational excellence	1 2 3 4 5 6	No change	Medium
7 Indian joint venture	India	2 5	No change	Medium
8 People	People	1 2 3 5 6	No change	Medium

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

KPI key

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')

Movement

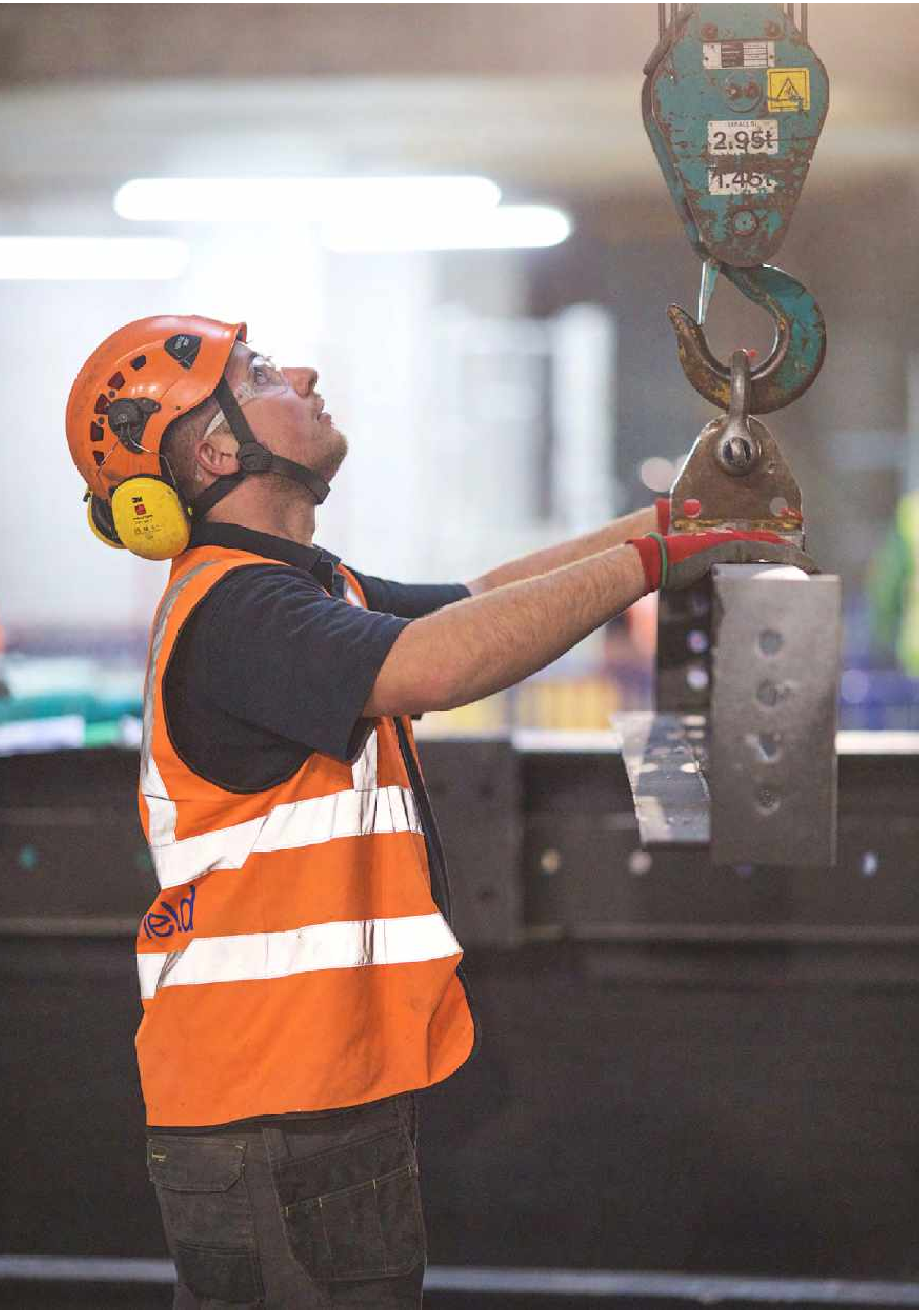
- Upward trend
- Downward trend
- No change

Scoring

- High
- Medium

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.


2.95t
1.45t

HOW WE MANAGE RISK

2019 principal risks

Scoring High Medium

Health and safety

1

Description

The Group works on significant, complex and potentially hazardous projects, which require continuous monitoring and management of health and safety risks. Ineffective governance over and management of these risks could result in serious injury, death and 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. Continued changes in legislation can result in increased risks to both individuals and the Group.

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, all of which focus on prevention and risk reduction and elimination.
- Thorough and regular employee training programmes.
- 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 and in-depth review of both high potential and reportable incidents.
- Regular reporting of, and investigation and root cause analysis of accidents and near misses.
- Behavioural safety cultural change programme.
- Occupational health programme including mental health.
- Achievement of challenging health and safety performance targets is a key element of management and staff remuneration.

Commercial and market environment

2

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. External factors include national or market trends, political or regulatory change (including the UK's exit from the EU).

Although the wider implications of Brexit are difficult to predict, an unfavourable Brexit outcome could adversely impact investor and customer 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 and higher costs could adversely impact revenues, profits, ability to recover overheads and cash generation.

Mitigation

- The Group closely monitors Brexit developments and specific risks and related mitigations are kept under review by the executive committee. We have taken steps to prepare for the various potential outcomes of Brexit and have plans in place to ensure we can continue to deliver on current and future contractual commitments.
- Regular reviews of market trends performed (as part of the Group's annual strategic planning and market review 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 and marshalling of market opportunities is undertaken on a coordinated Group-wide basis.
- 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).
- Development of a pipeline of opportunities in continental Europe and in the Republic of Ireland, supported by our European business venture.
- Maintenance and establishment of supply chain in mainland Europe.
- 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 cash position supports the business through fluctuations in the economic conditions of the sector.

HOW WE MANAGE RISK

2019 principal risks (continued)

Scoring High Medium

Information technology resilience

3

Description

Technology failure, cyberattack 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 which are subject to board approval, including anti-virus software, off-site and on-site backups, storage area networks, software maintenance agreements and virtualisation of the IT environment.
- Specific software has been acquired to combat the risk of ransomware attacks.
- 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 and have been updated for GDPR.
- Cybercrimes and associated IT risks are assessed on a continual basis and additional technological safeguards introduced. Cyberthreats 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.
- Insurance covers certain losses and is reviewed annually to establish further opportunities for affordable risk transfer with revised cover being purchased in 2019 to reduce the financial impact of this risk.

Mispricing a contract (at tender)

4

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.
- Adoption of new Group-wide project risk management framework ('PRMF') brings greater consistency and embeds good practice in identifying and managing contract risk.
- Professional indemnity cover is in place to provide further safeguards.

Failure to mitigate onerous contract terms

5

Description

The Group's revenue is derived from construction contracts and related assets. Given the highly competitive environment in which we operate, contract terms need to reflect the risks arising from the nature or the work to be performed. Failure to appropriately assess those contractual terms or the acceptance of a contract with unfavourable terms could, unless properly mitigated, result in poor contract delivery, poor understanding of contract risks and legal disputes.

Impact

Loss of profitability on contracts as costs incurred may not be recovered, and potential reputational damage for the Group.

Mitigation

- The Group has identified minimum standard terms which mitigate contract risk.
- Robust tendering process with detailed legal and commercial review and approval of proposed contractual terms at a senior level (including the risk committee) are required before contract acceptance so that onerous terms are challenged, removed or mitigated as appropriate.
- Regular contract audits are performed to ensure contract acceptance and approval procedures have been adhered to.
- We have worked with the British Constructional Steelwork Association to raise awareness of onerous terms across the industry.
- Through regular project reviews we capture early those occasions where onerous terms could have an adverse impact and are able to implement appropriate mitigating action at the earliest stage.

HOW WE MANAGE RISK

2019 principal risks (continued)

Scoring High Medium

Supply chain

6

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, including British Steel, 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.
- Implementation of best practice improvement initiatives including automated supplier accreditation processes.
- Strong relationships maintained with key suppliers including a programme of regular meetings and reviews.
- Contingency plans developed to address supplier and subcontractor failure (while our current steel supply from British Steel remains uninterrupted we have contingency plans in place to deal with the wide range of potential outcomes associated with the ongoing liquidation process being conducted by the Official Receiver).
- 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.

Indian joint venture

7

Description

The growth, effective management and performance of our Indian joint venture ('JSSL') is a key element of the Group's overall strategy. The factory in Bellary is currently being expanded to meet these market developments.

The Indian market has continued to expand rapidly and we are now seeing clear signs of the conversion of the market from concrete to steel, which is required to drive long-term value in business.

Impact

Failure to effectively manage our expanding 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.
- In 2019, senior management team strengthened, subcontracting capability expanded and workforce upskilled to support expanded operations.
- Regular schedule of annual visits to India by UK executive and senior management to review operations and ensure appropriate oversight.
- Two members of the Group's board of directors are members of the joint venture board and succession planning was undertaken effectively in 2019.
- 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 and overhead reduction and operational improvement programmes remain ongoing.
- Close monitoring of cash flow and debt repayments.
- Ongoing review of controls environment and risk management processes undertaken by Group senior management.

HOW WE MANAGE RISK

2019 principal risks (continued)

Scoring High Medium

People

8

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 decrease of confidence in the business within the market, customer relationships being lost and an inability to focus on business improvements.

Mitigation

- HR team strengthened in 2019 and the Group's people strategy is currently being refreshed.
- Recruitment of specialist recruitment resource within the team to review, revise and improve our HR practices.
- Second wave of our Severfield Development Programme launched in 2019.
- Annual appraisal process providing two-way feedback on performance.
- Attractive remuneration packages benchmarked, where possible.
- Graduate, trainee and apprenticeship schemes in place to safeguard an inflow of new talent.
- Internal communications improved in 2019.

Strategic report approval

The Group's strategic report is set out on pages 18 to 74.

The strategic report is approved by the board and signed on behalf by

Mark Sanderson
Company secretary
19 June 2019


FP13W

OUR GOVERNANCE

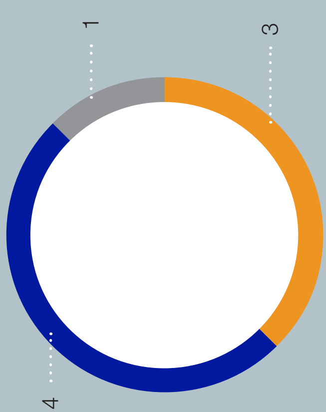
OUR BOARD OF DIRECTORS

Executives and non-executives

> The quality of our workforce, senior leadership team and board leave us well-placed to deliver on our strategic expectations and for long-term growth.

John Dodds
Non-executive chairman

Board composition



- Executive directors
- Non-executive directors
- Senior independent director

1 R N

John Dodds
Non-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 a non-executive director of Newbury Racecourse plc.

2

Alan Dunsmore
Chief executive officer

Appointed: 2010

Alan was appointed chief executive officer in February 2018. Prior to this he held the position of Group finance director from March 2010 to March 2017 and acting chief executive officer from April 2017 to January 2018. He 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.

3

Adam Semple
Group finance director

Appointed: 2018

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. He was appointed as Group finance director in February 2018, having held the role on an acting basis since April 2017. He was previously the Group's financial controller.

4

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.

5

Derek Randall
Executive director and managing director at JSW Severfield Structures

Appointed: 2011

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.

8 A N R

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 and Ramboll Group.

6 A N R

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 and in January 2018 a non-executive director of Cadent Gas Limited and chair of their remuneration committee. 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.

7 A N R

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.

Committee membership

N Nominations A Audit R Remuneration Committee chairman

OUR EXECUTIVE COMMITTEE

Read the **biographies** on pages 82 and 83


8
6
9
11
7

OUR EXECUTIVE COMMITTEE

1

Alan Dunsmore

Chief executive officer

For details see board of directors on page 78

2

Ian Cochrane

Chief operating officer

For details see board of directors on page 78

3

Derek Randall

(Not pictured)

Executive director and managing director at JSW Severfield Structures

For details see board of directors on page 79

4

Adam Semple

Group finance director

For details see board of directors on page 78

5

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.

6

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.

7

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).

8

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.

9

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.

10

Carolyn Hobdey

Group HR director

Carolyn joined the Group in November 2018. Her career has been spent predominantly in manufacturing environments with notable international organisations such as Unilever, Kerry Ingredients, Danaher Corporation, and most recently as a board director of a subsidiary of the Asda-Walmart family.

Carolyn is a fellow of the Chartered Institute of Personnel and Development, holds a post-graduate diploma in personnel management and a masters degree from the Lean Enterprise Research Centre at Cardiff University.

11

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.

12

Kevin Campbell

Business unit director, Severfield (Products & Processing)

Kevin joined the Severfield Group in 2011 as head of operations at the Group's joint venture, JSW Severfield Structures in India where he held several senior positions and had an instrumental role in the development of the business over a period of three and a half years. Since returning to the UK, Kevin held the position of business improvement associate director of Severfield plc until his current appointment in January 2018.

Kevin has over 20 years' experience in the structural steelwork industry, with his career centred on senior manufacturing roles. He is a chartered engineer with the Institution of Engineering and Technology and holds an MBA gained at the University of Bradford.

OUR CHAIRMAN'S VIEW ON GOVERNANCE

Overview

> This year has seen continued external focus on companies' corporate governance arrangements, ensuring they have strong and robust corporate governance at the heart of everything they do.

John Dodds
Non-executive chairman

Dear shareholder

I am pleased to introduce the Group's corporate governance report on behalf of our board of directors ('the board'). This year has seen continued external focus on companies' corporate governance arrangements, ensuring that they have strong and robust corporate governance at the heart of everything they do. This report will outline how the board has ensured that we have effective corporate governance in place to help support the creation of long-term value for our shareholders and stakeholders.

The Group is committed to business integrity, high ethical values and professionalism in all of the activities it undertakes. I can confirm that the stewardship and good governance of our Company remains a high priority for the board.

Our corporate governance report is set out on pages 86 to 91 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code') and outlines how the board ensures that high standards of corporate governance are maintained.

Leadership and board composition

The only change to the composition of the Board this year was the resignation of Chris Holt at the AGM in September 2018. Chris left with our thanks and best wishes and we have appointed an external consultant, Korn Ferry, to recruit a replacement to ensure that the board retains an appropriate combination of skills, experience, diversity and knowledge. The appointment of Carolyn Hobdey as Group HR director has given us the opportunity to refresh our succession planning and she is also undertaking a review of our approach to workforce engagement and culture as well as our formal approach to engagement with employees. We will report on this further in our annual report for the 2020 financial year.

Board evaluation

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 the other directors and the board's committees. Overall, the evaluation was positive, further details of which can be found in the corporate governance report on page 89.

Accountability

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 93.

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 86.

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's oversight, we continue to believe that the current remuneration packages help to appropriately incentivise management to sustain long-term value for shareholders.

Our remuneration policy was approved at the AGM in September 2017. A summary of our remuneration policy, how we intend to operate that policy in 2020, and a review of the remuneration committee's activities, together with bonus and PSP performance in 2019, can be found in the remuneration report on pages 104.

Talent and diversity

The board is mindful of diversity and we believe that a diverse company (in all regards, not just gender) provides a balanced and effective organisation. During the year, we published our second gender pay gap report. We are confident that our gender pay gap does not stem from paying men and women differently for the same or equivalent work. We are mindful though that the sector in which we operate is male dominated and we have set up initiatives to attract more women to the business.

Relations with shareholders

The board and I recognise the responsibility we have to a range of stakeholders including customers, employees, subcontractors and suppliers and the environment and communities in which we operate.

We have an open and effective dialogue with shareholders, with regular meetings being held with institutional shareholders, and we held a Capital Markets Day in January 2019 at the 22 Bishopsgate project which was well attended with positive feedback. The AGM is an important opportunity for private investors to engage with the board and all shareholders are encouraged to attend. It is being held again this year at Aldwark Manor Hotel, York, YO61 1UF on 3 September 2019 at 12:00 pm.

Further information on **shareholder and stakeholder engagement** is on page 91

John Dodds
Non-executive chairman
19 June 2019

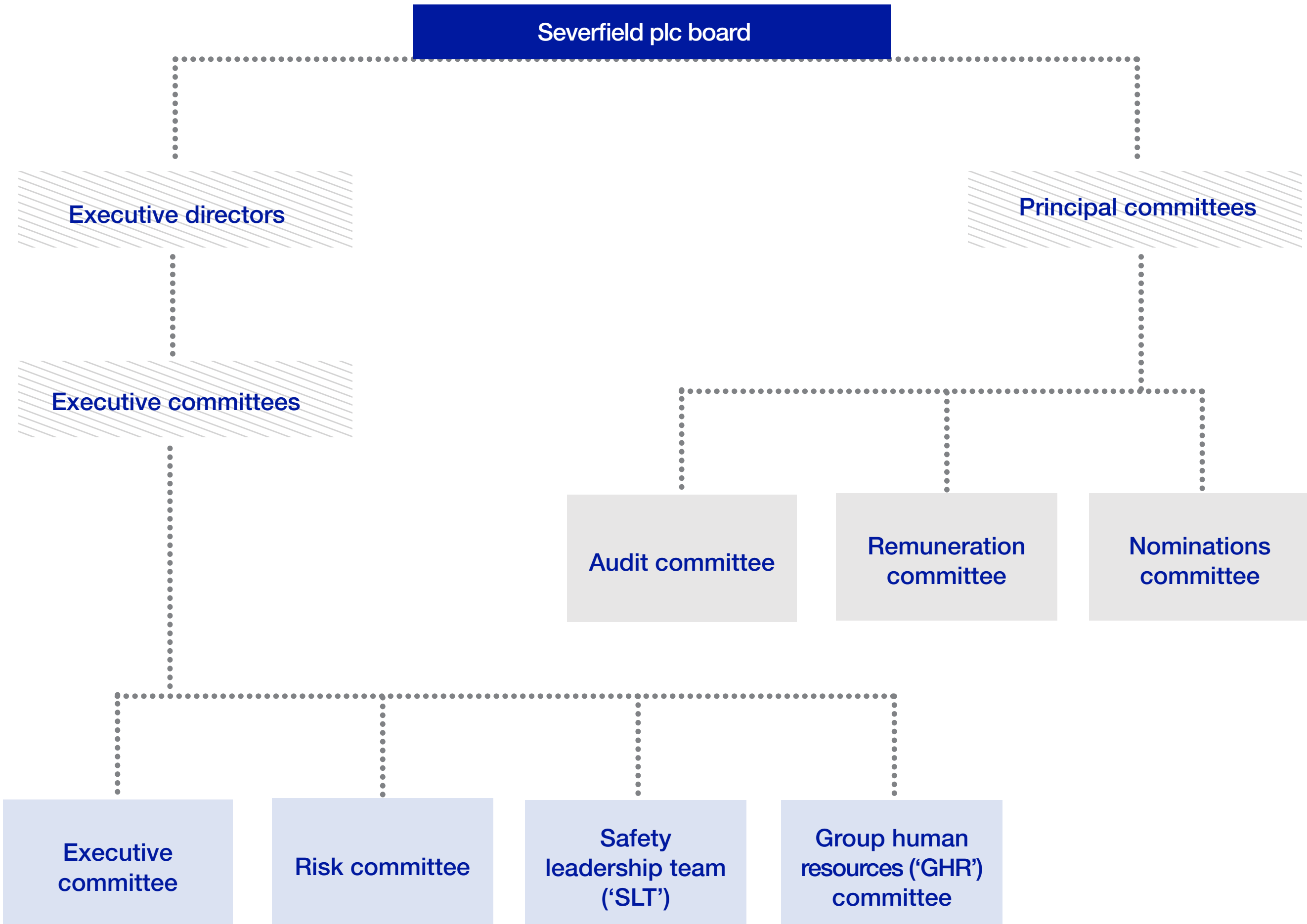
UK Corporate Governance Code

During the year the board received a presentation on the new 2018 Code. Some changes have been made already to comply with the 2018 Code such as the amendment to the terms of reference of our Remuneration Committee and all processes and procedures are being reviewed in the light of the changes brought in by the 2018 Code. We will report against the 2018 Code in our annual report for the 2020 financial year.

For the current reporting period, we have applied the 2016 UK Corporate Governance Code, which is the version of the Code which applies to the Company for its 2019 financial year. The Company has complied fully with the requirements of the 2016 Code throughout the accounting period and to the date of this report.

CORPORATE GOVERNANCE REPORT

Leadership



Structure of the board

The Company is controlled through the board of directors, which consists of the chairman, three other non-executive directors and four executive directors. Four of these directors have been directors of the Company for less than six years. The membership of the board is stated on pages 78 and 79.

Alan Dunsmore 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.

Non-executive chairman	
John Dodds	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.
Chief executive officer	
Alan Dunsmore	As the senior executive of the Company, Alan Dunsmore 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 82 and 83. 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.
Senior independent director	
Kevin Whiteman	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.

Independence

All 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 2019 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 116. 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 the directors retire at each AGM and may offer themselves for re-election by shareholders.

CORPORATE GOVERNANCE REPORT

Accordingly, all of the existing directors whose biographies are set out on pages 78 and 79 will be standing for re-election at the 2019 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, 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 and members of the executive committee.

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2019 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	**11**	**3**	**4**	**2**
Executive directors				
Alan Dunsmore	11/11	—	—	—
Ian Cochrane	11/11	—	—	—
Derek Randall	11/11	—	—	—
Adam Semple	11/11	—	—	—
Non-executive directors				
John Dodds	11/11	3/3	4/4	2/2
Kevin Whiteman	11/11	3/3	4/4	2/2
Tony Osbaldiston	11/11	3/3	4/4	2/2
Alun Griffiths	11/11	3/3	4/4	2/2
Chris Holt[1]	5/5	1/1	3/3	—

[1]Chris Holt resigned from the board with effect from 4th September 2018 but attended all meetings whilst he was a director

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 and, from time to time, at clients' sites to provide non-executive directors the opportunity to increase their knowledge and understanding of the Group's operations.

Board evaluation process

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.

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.

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. Particular attention was paid this year to the changes to the Code and to the new reporting regulations that took effect for Severfield on 1st April 2019.

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, published on the website 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 92 to 120.

CORPORATE GOVERNANCE REPORT

Board strategy review

In addition to regular scheduled board and board committee meetings, the board undertakes an annual strategy away day each year. This is structured to take place on the day before a scheduled board meeting. The agenda for the strategy away day is agreed in advance, including specific strategic issues which have been raised at previous board meetings or requested by the board. The strategy review is supplemented by an annual market update following a similar format although shorter in length.

Board meetings for the current year

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

May 2018

- Strategic review undertaken and strategic plan updated
- Reviewed the statement of compliance in accordance with the Modern Slavery Act
- Board visit to India (five day visit to meet JSSL management, receive a site tour and visit the Bellary factory)

June 2018 (two meetings)

- Reviewed and approved annual report and accounts
- Approved final and special dividends
- Assessed going concern and longer term viability of the Group

July 2018

- Presentation from Group SHE director
- Reviewed feedback on year-end results
- Approved further investment in India to part fund expansion

September 2018

- Considered key issues arising from recent changes in governance and reporting rules
- Reviewed annual statements of compliance from directors and approved conflicts of interest
- Approved refinancing of debt facilities
- Approved appointment of new KPMG lead audit partner

November 2018 (two meetings)

- Board meeting in Lostock with factory visit and business update presentation
- Reviewed and approved half year results
- Approved interim and special dividends

January 2019

- Reviewed investor feedback on interim results
- Agreed scope and content of board and chairman evaluation
- Hollow lens technology demonstration

March 2019 (two meetings)

- Presentation on latest market developments
- Reviewed board and chairman evaluation results
- Board meeting held at CMF with presentation from senior management and factory visit
- Reviewed feedback on capital markets day

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 132 to 176) and a statement by the auditor concerning their responsibilities (pages 124 to 131). The directors also report that the business is a going concern (page 100) 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 18 to 74). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 50).

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 102 to 120. 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 board recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. 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 and issues regular trading updates to the market.

Alan Dunsmore and Adam Semple 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. A capital markets day was held in January 2019 at the 22 Bishopsgate project, which was well attended with positive feedback.

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

Overview

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.

Tony Osbaldiston
Chairman of the audit committee

3 **Audit committee meetings held**

Members

Tony Osbaldiston (chairman)

Kevin Whiteman

Alun Griffiths

John Dodds was a member until 1 April 2019

2019 key achievements

- Reviewed proposals for the replacement of the KPMG lead audit partner following Adrian Stone's retirement and approved appointment of David Morritt.
- Considered and reviewed the internal control environment at JSSL.
- Considered and reviewed management's papers on the accounting impact of IFRS 15 and IFRS 16.
- Oversaw the continued development of the Group's systems of risk management and internal control.
- Reviewed and recommended to the main board the report and accounts for the year ended 31 March 2018 and the 2019 interim accounts.

Membership

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 is a chartered accountant.

By invitation, there were a number of other regular attendees including internal and external auditors. Alan Dunsmore, Adam Semple, Graeme Campbell (Group financial controller) and Mark Sanderson also attended each meeting by invitation.

John Dodds is no longer a member of the audit committee but is invited to attend meetings as the committee finds his experience and insight offers considerable value.

Meetings are held at least three times per annum and additional meetings may be requested by the external auditor.

There were 3 meetings in the year attended by all members.

Role and key responsibilities

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.

Activities of the committee

The committee addressed the following key agenda items in relation to the 2019 financial year:

- Reviewed the interim results for the period ended 30 September 2018 and the year-end results for the period ended 31 March 2019.
- Reviewed the significant management judgements reflected in the Group's results including significant contract judgements.
- Reviewed proposals for the replacement of the KPMG lead audit partner following Adrian Stone's retirement and approved appointment of David Morritt.
- Discussed the report received from the external auditor regarding the audit of the results for the year ended 31 March 2019. 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 2019.
- Reviewed the Group's risk register.
- Considered and reviewed management's papers on the accounting impact of IFRS15.
- Considered and reviewed management's papers on the accounting impact of IFRS16.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 31 March 2019.
- 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.
- Considered the effectiveness of the external auditor, KPMG LLP ('KPMG'), their independence and reappointment for the year ending 31 March 2020.
- 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.
- Considered and reviewed the internal control environment at JSSL.

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 62 to 65.

AUDIT COMMITTEE REPORT

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 could 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 50 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.

In the 2018 annual report, the carrying value the investment in the Indian joint venture was classified as a significant accounting risk. Given the improved current and future forecast performance of the Indian joint venture and its strong order book this item is no longer classified as a risk in the 2019 annual report.

The one significant issue considered during the year is:

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, the estimation of future costs to complete and the estimation of claims received by the Group. The external auditor performed detailed audit procedures on revenue and profit recognition and reported their findings to the committee.

The committee was satisfied that this matter 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 considered a number of other judgements which have been made by management, none of which had a material impact on the Group's 2019 results. These include the review of the carrying value of the investment in the Indian joint venture, 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 2019 marks the fourth 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 David Morritt, 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.

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 for 2019 is David Morritt, whose appointment in this role commenced with the audit for the financial year ended 31 March 2019.

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:

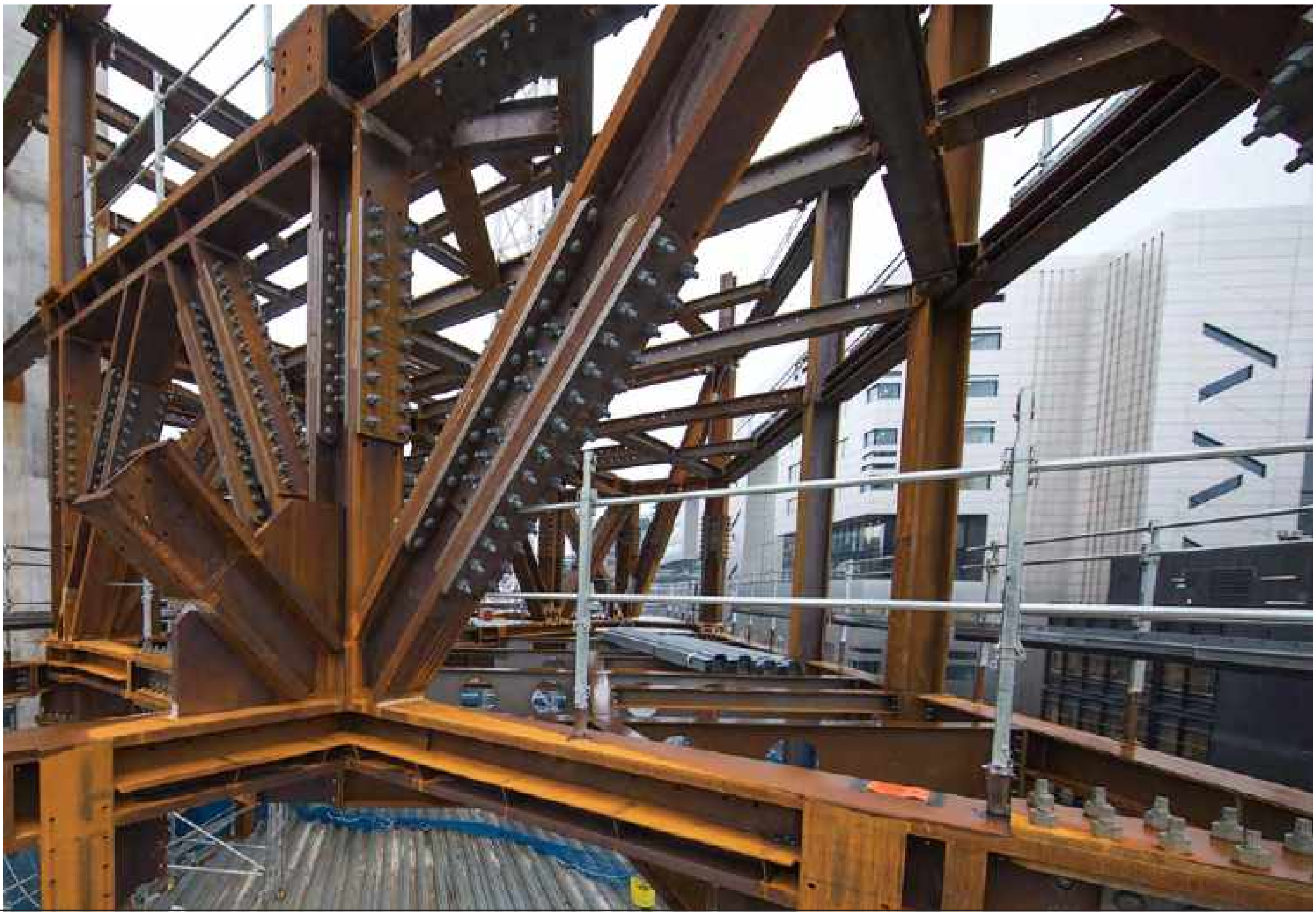
- as part of the statutory audit, it is required to report directly on its own non-audit work;
- it makes management decisions on behalf of the Group; or
- it acts as advocate for the Group.

This policy is compliant with the Code and with the FRC's revised Guidance on Audit Committees. It includes 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 policy requires a competitive tender for all work with a fee over £30,000.

For work that is permitted under the policy, authority is delegated to the Group finance director to approve up to a limit of £50,000 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 2019 required the approval of the committee.

Details of the auditor's fees, including non-audit fees (which comply with the Group's policy on the provision of non-audit services), are shown in note 4 to the consolidated financial statements. The total non-audit fees for 2019 represent 10 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
19 June 2019



NOMINATIONS COMMITTEE REPORT

Overview

"The committee ensures the continued effectiveness of the board through appropriate succession planning and supports the development of a diverse pipeline."

John Dodds
Chairman of the nominations committee

2 **Nominations committee meetings held**

Members

- John Dodds (chairman)
- Tony Osbaldiston
- Kevin Whiteman
- Alun Griffiths

2019 key achievements

- Establishing a process for the replacement of Chris Holt as non-executive director.
- Establising a process for refreshing the Group's succession planning.
- Undertaking and considering the results of the Board evaluation.

2020 areas of focus

- Recommending the appointment of Korn Ferry to undertake the search for a new non-executive director, taking into account succession planning and diversity.
- Reviewing and re-establishing the Group's succession plan.
- Undertaking an effective board evaluation.

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

During the year, Chris Holt stepped down from the Board and, as a result, Korn Ferry were instructed to undertake a search for a new non-executive director. Nevertheless, the board is considered to have been operating effectively all year. The board consists of eight directors, four of whom have been directors of the Company for less than six years. Korn Ferry has supported the board in previous selection processes for new board members but has no other connection with the Company.

Diversity

We truly value diversity and a culture of inclusion at all levels within the Group. Our formally adopted equal opportunities and diversity policy sets out the key actions that will be taken to ensure we have a more diverse workforce throughout the Group. We consider diversity to include diversity of background, race, disability, gender, sexual orientation, beliefs and age and encompasses culture, personality and work-style.

We support the principle of seeking 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 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 2019, the board had no female directors. Notwithstanding this, female representation on our executive committee is two (18 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. In November 2018, on her appointment as Group HR director, Carolyn Hobdey was tasked with refreshing and enhancing our approach to succession planning.

Evaluation

The committee (led by Kevin Whiteman) performed an internal evaluation using the process described on page 89. The results of the evaluation were positive. The key points arising from the evaluation were documented and discussed with the chairman

John Dodds
Chairman of the nominations committee
19 June 2019

DIRECTORS' REPORT

Mark Sanderson
Company secretary

Introduction

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2019.

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 18 to 74, 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 86 to 91 is incorporated in this report by reference.

There have been no significant events since the balance sheet date.

Directors

The present membership of the board is set out on pages 78 and 79.

The other significant commitments of the chairman consist of acting as 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 109.

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 continue 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 2019, 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	41,560,541	13.67
2. M&G Investment Management	40,488,861	13.32
3. Threadneedle Asset Management	20,306,666	6.68
4. Legal & General Investment Management	16,981,080	5.59
5. Invesco (including Perpetual & Trimark)	16,759,531	5.51
6. Artemis Investment Management	16,651,524	5.48

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 2019, there were 303,984,746 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 2019 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 4 September 2018, 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 2019 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 4 September 2018, 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 2019 AGM (or, if earlier, until the close of business on 30 September 2019).

During the period, the directors did not use their power to issue shares under the authorities but did issue shares to satisfy options and awards under the Company's share incentive schemes.

The directors were also granted authority at the previous annual general meeting on 4 September 2018, 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 2019 AGM (or, if earlier, until the close of business on 30 September 2019). During the period, the directors did not use these powers.

DIRECTORS' REPORT

Dividends

The directors declared an interim dividend for the six months ended 30 September 2018 of 1.0p per ordinary share (2018: 0.9p). The directors have recommended a final dividend of 1.8p per ordinary share to be paid on 13 September 2019 to shareholders on the register at the close of business on 16 August 2019.

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 November 2023 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.

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 page 50.

Anti-corruption and bribery matters

The Group updated its anti-bribery policy during the year and prohibits all forms of bribery, both in giving and receiving, wherever it operates. This includes its own employees and any agent or business partner acting on its behalf. No concerns have arisen in relation to such matters during the year and the Group does not regard corruption or bribery as a principal risk. Part of our policy is to undertake due diligence on the risks associated with operating in any high-risk locations.

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:

- Employees, employee involvement and engagement – pages 58 to 61
- Respect for human rights – page 61
- Social matters – page 61
- Equal opportunities (including for the disabled) – page 59
- Environmental matters – pages 52 to 54
- Greenhouse gas emissions – page 54
- Long-term incentive plans – page 107 of the directors' remuneration report
- Statement of directors' interests – page 116 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 29 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 2019. 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 Tuesday 3 September 2019, 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 98 to 100 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary
19 June 2019


Street
Street
GS 150
Severfield

DIRECTORS' REMUNERATION REPORT

Overview

"Remuneration policy continues to provide strong alignment with the interests of our shareholders and other stakeholders in incentivising management to meet demanding short-term targets and to deliver sustainable long-term value creation, whilst ensuring that high safety standards are achieved."

Alun Griffiths
Chairman of the remuneration committee

4 **Remuneration committee meetings held**

Members and committee attendance

Alun Griffiths (chairman)	4/4
Kevin Whiteman	4/4
Tony Osbaldiston	4/4
John Dodds	4/4
Chris Holt	3/3*

*Chris Holt resigned on 4 September 2018.

2019 key achievements

- Setting and reviewing directors' remuneration and benefits including the basic salary increases across the Group.
- Assessed performance against the 2018 bonus targets and set the 2019 bonus targets.
- Reviewed and approved targets and performance measures for long-term incentive awards for our executive directors and senior management.
- Reviewed and updated terms of reference for the remuneration committee.
- Reviewed the remuneration policy in the context of the change to the Code and recent guidance issued by the main institutional investor bodies, for the implement of the policy in 2020.

Dear shareholder

As chairman of the remuneration committee, I am pleased to present our directors' remuneration report (the 'report') for the year ended 31 March 2019.

The report is split into the following two sections:

- Part 1, the remuneration policy report, which sets out the remuneration policy for the executive and non-executive directors; and
- Part 2, the annual report on remuneration, which discloses how the remuneration policy was implemented for the year ended 31 March 2019 and how it will be implemented for the year ending 31 March 2020. The annual report on remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 3 September 2019

Our policy was last approved at our 2017 AGM, with 99.66 per cent of votes cast in favour, and is not being submitted to a shareholder vote at the 2019 AGM. As part of our regular three-year cycle, we will be asking shareholders to approve an updated policy at the 2020 AGM.

Overall, the Committee considers that the policy continues to support our business strategy and provides an appropriate link between performance and reward.

The Group has consolidated its position this year, delivered bottom line growth and made real progress in meeting its strategic objectives. This was achieved through continuing focus on operational improvement, bid and contract management, supported by continued investment in people, processes and technology.

The management team performed well during challenging UK market conditions and met demanding Group strategy targets. Whilst the Group profit bonus target was not met, the India profit target was achieved.

Summary of proposed changes for 2019

During the next 12 months we will undertake a thorough review of our policy and take account of the 2018 update to the Code, the FRC's revised Guidance on Board Effectiveness and the Companies (Miscellaneous Reporting) Regulations 2018. However, a number of improvements to how the current policy is implemented in 2019 are being made immediately:

- Introduction of a new two-year post vesting holding period for PSP share awards made in 2019 and beyond;

- Expansion of provisions dealing with malus and clawback so that they include not only financial misstatement, error, substantial failures in risk control, serious misconduct and any other exceptional circumstances determined by the remuneration committee but also, corporate failure and serious reputational risk; and
- Introduction of Remuneration Committee discretion to override formulaic outcomes where these exceed expectations, such as in cases of excessive share price growth.

We shall also:

- consider the appropriate benchmark for future pension provision for new director appointments (given the range of current practice within the Company) and capping absolute pension contributions for current directors;
- consider our policy on the expected time period for directors to meet our shareholding requirement; and
- consider any further changes to ensure that executive remuneration remains appropriate and effective.

Finally, following her recent recruitment, our new Group HR Director, Carolyn Hobdey, will be focusing on a number of strategic HR matters such as 'employee voice', cultural change and workforce engagement.

Performance and reward 2019

Base salaries

During the year, the salaries of Alan Dunsmore and Adam Semple were held at 2018 levels since they were appointed to their current roles on 1 February 2018, but the other directors received a 2.5 per cent salary increase which was broadly in line with that received by the UK workforce.

Annual bonus

The profit targets for our Indian joint venture were met, reflecting the strong performance of our Indian business, but Group financial targets were not achieved and there was no bonus pay-out against these financial metrics. Safety targets were successfully met. As a result, an annual bonus pay-out of 20 per cent of the maximum opportunity (or in the case of Derek Randall 60 per cent) will be made.

PSP awards

The remuneration policy allows a maximum grant of 150 per cent of salary, with awards of up to 100 per cent of salary typically made for the chief executive officer and Group finance director and 75 per cent for other executive directors. The Group continues to take a conservative approach to the making of awards and the Group finance director received an award of 75 per cent of salary to reflect his being new in role. An award of 100 per cent of salary was made to Ian Cochrane, our chief operating officer, to reflect his contribution to the Group. All awards are below the maximum permitted by the policy. The targets for the 2019 awards are set out below. Our shareholding requirement was adjusted so that each executive director is now subject to a shareholding requirement of two times the value of their PSP award.

PSP vesting

The committee assessed the performance for the PSP awards vesting in 2019 and the levels of profit achieved last year resulted in targets for the 2016 PSP award (EPS targets which equated to PBT of between £18.6m and £24m) being exceeded, resulting in the expected vesting of these awards at their maximum level.

Having reviewed the performance of the annual bonus and the PSP, the committee considered that the application of discretion, to override or modify bonus or PSP outcomes, was not needed, as the outturn reflected both achievement against the respective performance targets and the performance of the Group.

Implementation of policy for 2020

Base salaries

Salaries for the directors will be reviewed and effective from 1 July 2019 with increases, as a percentage of salary, being limited to those of the wider workforce. There will be no change to the fees paid to non-executive directors.

Annual bonus

For the 2020 financial year, the maximum annual bonus opportunity is 100 per cent of salary. The on-target bonus is 50 per cent of the maximum The financial and safety performance targets for the 2020 bonus reflect the continued strong forward momentum of the Group. The majority of performance is assessed against financial targets (80 per cent). 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.

PSP

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 8.41p to 10.39p in 2022. This equates to a PBT range of £31.0m to £38.3m. This represents an increase in the lower vesting threshold of £1.5m (five per cent) and in the threshold at which maximum vesting takes place of £1.8m (five 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.

PSP awards will now be subject to a two-year post vesting holding period.

Conclusion

The committee continues to seek to strengthen shareholder 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 consider our remuneration policy achieves these objectives. At the 2020 AGM we will be putting our remuneration policy to a shareholder vote. In advance of this, we will be reviewing our policy and taking account of the recent changes to the Code and institutional shareholder guidelines.

I hope you find this report to be clear and helpful in understanding our remuneration policy and practices.

I look forward to engaging with shareholders before and at the AGM to answer any questions they might have.

Alun Griffiths
Chairman of the remuneration committee
19 June 2019

DIRECTORS' REMUNERATION REPORT

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 2016 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 parts:

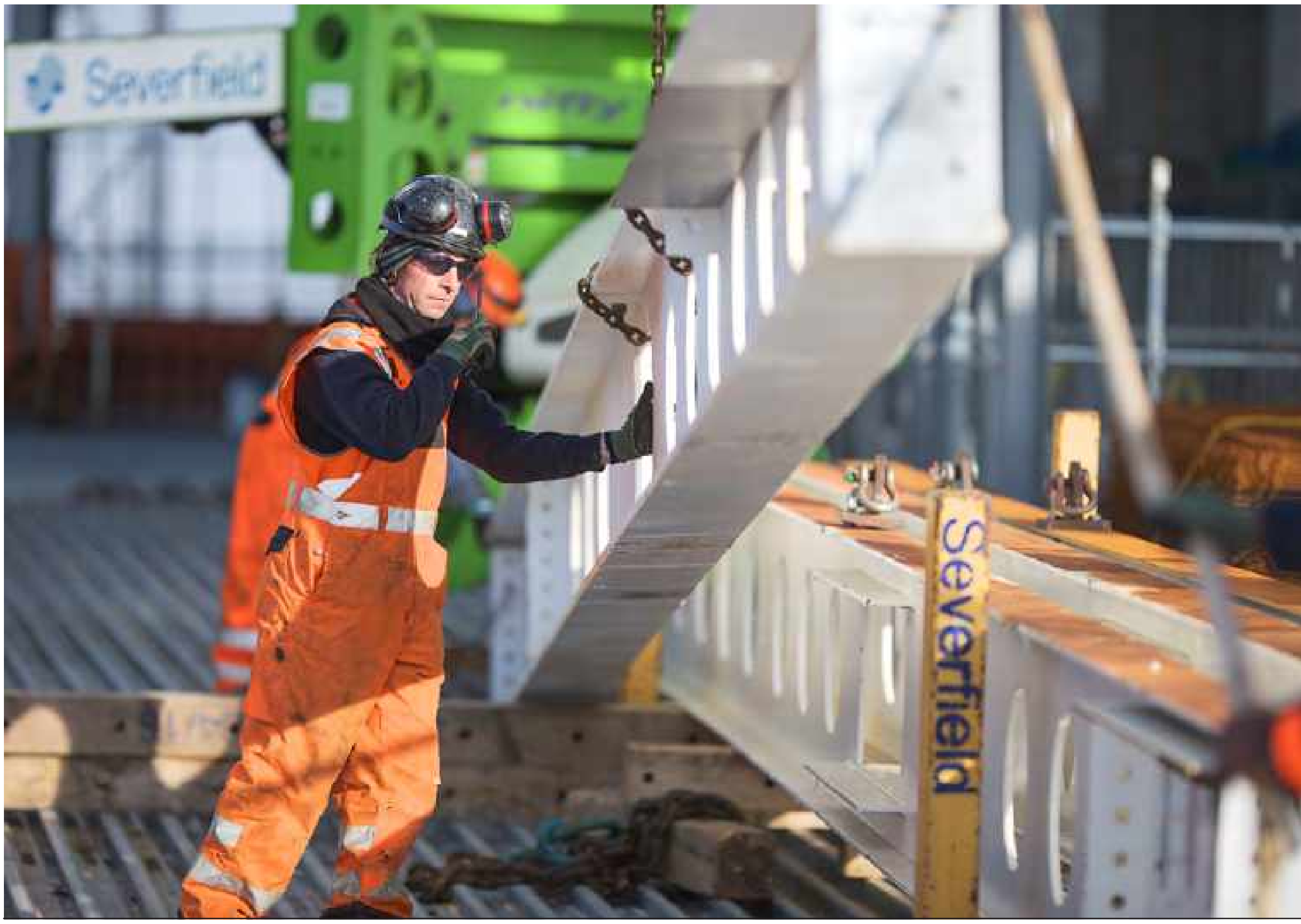
- a summary of the directors' remuneration policy (pages 105 to 110). This section contains details of the remuneration policy approved at the 2017 AGM and is for information only.
- The directors' annual remuneration report (pages 111 to 120). This section sets out the details of remuneration earned by directors for performance in the year ended 31 March 2019, and how the policy was implemented. It sets out how we intend to apply the policy for the year ending 31 March 2020. The directors' remuneration report is subject to an advisory vote at this year's AGM.

Part 1- Summary of directors' remuneration policy

The remuneration policy was approved at the AGM in 2017. Provided for information only are the details of the policy that were referenced in the committee's activities over the past reporting year which includes the remuneration policy table, the recruitment remuneration arrangements, executive director service contracts and terms and conditions for non-executive directors.

The full policy report, as approved by shareholders, can be found on page 83 in the 2017 annual report. It is intended this policy will remain in place until the 2020 AGM. The Company's remuneration policy continues to support the business strategy by ensuring that the overall remuneration package is set at a competitive level while ensuring that additional reward is only paid for high performance over a sustained period.

This is available on the Group's website: **www.severfield.com**



Remuneration policy table for executive directors

Executive directors

The following table summarises each element of the remuneration policy for the executive directors, explaining how each element operates and links to the business strategy.

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 against 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, for example, 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.

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.

DIRECTORS' REMUNERATION REPORT

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.

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 and equivalent adjustments are paid in shares. For 2019, and beyond, the specific circumstances in which malus and clawback may apply have been expanded to include not only financial misstatement, error, substantial failures in risk control and other exceptional circumstances determined by the remuneration committee but also, corporate failure and serious reputational risk.

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. No more than 50 per cent of the maximum 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 113.

Performance Share Plan ('PSP') (approved by shareholders in 2017)
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. Dividends may accrue on vested awards, payable in shares. For 2019, and beyond, the specific circumstances in which malus and clawback may apply have been expanded to include not only financial misstatement, error, substantial failures in risk control and other exceptional circumstances determined by the remuneration committee but also, corporate failure and serious reputational risk.

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. A 2-year post-vesting holding period will apply for awards made from 2019 onwards.

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.

Shareholding requirement
Purpose and link to strategy
To strengthen the alignment between the interests of the executive directors and those of shareholders.
Operation
Executive directors are required to retain shares acquired under equity incentive schemes until such time as they have built up the required holding. Thereafter they will be under a continuing obligation to maintain at least such a holding.†

Maximum opportunity	Performance conditions
The required holding is two times the value of an executive director's PSP award which, based on the current PSP award policy, would equate to two times salary for the chief executive officer and the Group finance director and 150% for other executive directors.	Not applicable.

†We will review and develop a post cessation holding period during the 2020 financial year and report to shareholders in due course.

DIRECTORS' REMUNERATION REPORT

Policy of payment for departure from office

Provision	Policy
Salary, pension and benefits	If no breach of service agreement – termination payment based on the value of base salary that would have accrued during the contractual notice period* taking into account mitigation when appropriate as circumstances dictate.
Annual bonus	Discretionary payment based on the circumstances of the termination and after assessing performance conditions and only for the service period worked. DSBP will be forfeited for dismissal for misconduct, fraud and performance issues and where executive director leaves for alternative employment at a competitor.
PSP	Outstanding awards will lapse unless good leaver (death, disability, retirement, the sale of the business or company that employs the individual or for any reason at the discretion of the committee (which may take into account the circumstances of an individual's departure)). A good leaver's unvested awards will vest on the normal vesting date subject to the achievement of any relevant performance condition (other than in the case of death when vesting will be immediate), with a pro-rata reduction to reflect the proportion of the vesting period served.

*The committee will have the authority to settle any legal claims made against the Company, for example for unfair dismissal, that may arise on termination.

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:

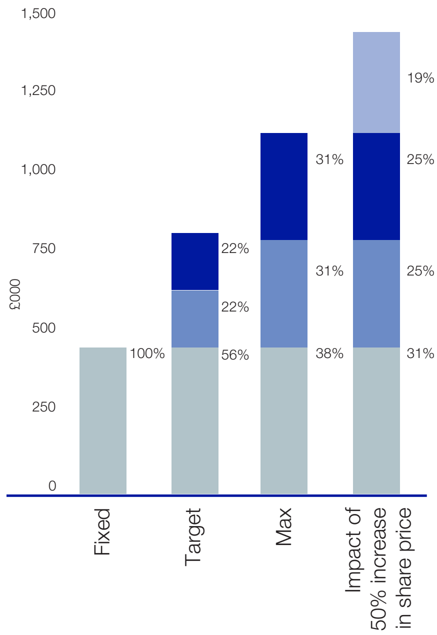
- Minimum (performance below threshold) — Fixed pay only with no vesting under the annual bonus or PSP.
- Target (performance in line with expectations) — Fixed pay plus a bonus at the mid-point of the range (i.e. 50 per cent of the maximum opportunity) and a PSP award of 100 per cent of salary for the chief executive officer and chief operating officer 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.
- In addition, a further column reflects the impact of a 50 per cent share price appreciation.

Fixed pay comprises:

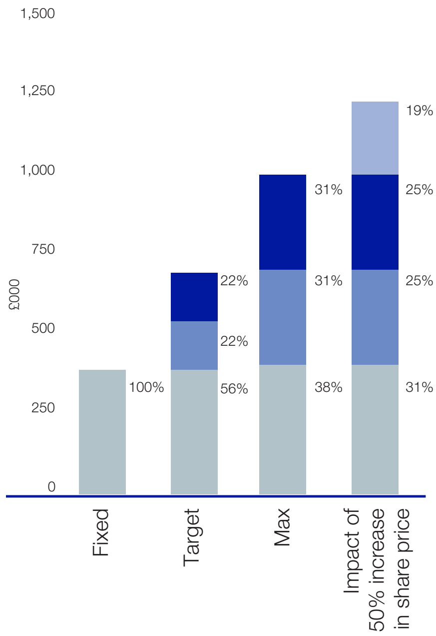
- Salaries – salary effective as at 1 July 2019;
- Benefits – amounts expected to be received by each executive director in the 2020 financial year;
- Pension – amount that will be received by each executive director in the 2020 financial year based on the policy set out in the table above.

The scenarios for minimum, target and maximum performance do not include any share price growth.

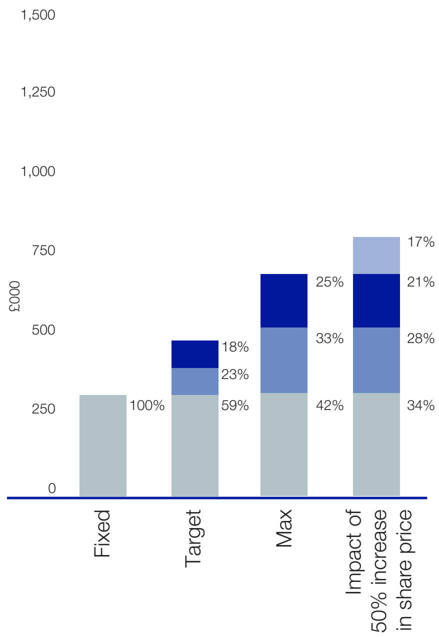
Chief executive officer



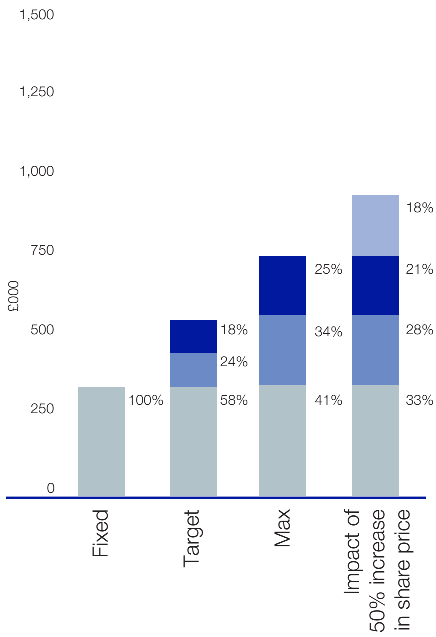
Chief operating officer



Group finance director



Executive director



- Fixed
- LTIP
- Bonus
- Share price appreciation

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.

DIRECTORS' REMUNERATION REPORT

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.

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.

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.

Part 2 – annual remuneration report

In this section, we report on the implementation of our policies in the year ended 31 March 2019 as well as how the policy will be implemented for 2020. 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 2019

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[1]	3/3
Kevin Whiteman	4/4
Tony Osbaldiston	4/4

[1]Chris Holt attended all meetings whilst he was a director.

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 were reviewed and updated to reflect the requirements of the new Code. The updated terms of reference are available on the Company's website.

Advisers to the committee

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Fees charged by Aon for advice provided to the committee for the year ended 31 March 2019 amounted to £24,000 (excluding VAT) (2018: £33,000).

DIRECTORS' REMUNERATION REPORT

Directors' earnings for the 2019 financial year (audited)

Remuneration received by the directors

	Year ended 31 March 2019						
£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
Executives							
Alan Dunsmore	350	70	–	19	70	381	890
Ian Cochrane	310	62	–	16	50	338	776
Derek Randall	255	154	–	–	50	278	737
Adam Semple	220	44	–	16	40	37	357
Non-executives							
John Dodds	–	–	125	–	–	–	125
Tony Osbaldiston	–	–	45	–	–	–	45
Kevin Whiteman	–	–	45	–	–	–	45
Alun Griffiths	–	–	45	–	–	–	45
Chris Holt[1]	–	–	17	–	–	–	17
	1,135	330	277	51	210	1,034	3,037

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 2019.

* Calculated at 100 per cent of maximum award x the average share price over the period 1 January 2019 to 31 March 2019 of 68.75p and adjusted for extra dividend equivalent shares.

[1] Chris Holt resigned with effect from 4 September 2018.

Directors' earnings for the 2018 financial year (audited)

Remuneration received by the directors

	Year ended 31 March 2018						
£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
Executives							
Ian Lawson[1] (until 31 January 2018)	272	–	–	16	64	386	738
Alan Dunsmore[2]	330	206	–	16	53	214	819
Ian Cochrane	302	190	–	16	50	260	818
Derek Randall	249	173	–	–	50	214	686
Adam Semple[3]	167	66	–	11	16	23	283
John Dodds[4]	146	–	21	–	–	–	167
Non-executives							
Tony Osbaldiston	–	–	45	–	–	–	45
Kevin Whiteman	–	–	45	–	–	–	45
Alun Griffiths	–	–	45	–	–	–	45
Chris Holt	–	–	40	–	–	–	40
	1,466	635	196	59	233	1,097	3,686

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 2018 and are calculated as actual value of benefit at the actual vesting date (including extra dividend equivalent shares) based on the vesting share price of 84.44p.

[1] Ian Lawson was an executive director for the period 1 April 2017 to 31 January 2018 and received compensation for loss of office of £408,000 on his resignation as chief executive on 31 January 2018. These payments represent amounts to which the Group was contractually obliged but are not included in this table.

[2] Alan Dunsmore's remuneration comprises his remuneration as interim chief executive officer and as chief executive officer. He was paid a supplement of £63,000 to his salary as Group finance director to reflect the additional responsibilities of the interim chief executive officer role for the period 1/4/17 to 31/1/18.

[3] Adam Semple operated as interim Group finance director from 1 April 2017 to 31 January 2018 when he was appointed to this role on a permanent basis. His remuneration comprises his remuneration as interim Group finance director and as Group finance director. He was paid a supplement of £43,000 to his salary as Group financial controller to reflect the additional responsibilities of the interim Group finance director role for the period 1 April 2017 to 31 January 2018.

[4] John Dodds operated as executive chairman from 1 April 2017 to 31 January 2018 when he resumed his role as non-executive chairman. The salary he received as a executive director and the fees he received as non-executive director have been disclosed separately.

Remuneration received by the directors

The remuneration packages of Alan Dunsmore and Adam Semple were adjusted following their promotion on 1 February 2018. No further increases were made during the year. The other directors received a 2.5 per cent salary increase which was broadly in line with that received by the UK workforce.

Past directors/loss of office payments (audited)

There have been no payments made to past directors during the year.

How pay linked to performance in 2019

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 receive nil cost options exercisable after three years over a seven-year period which are forfeitable only in certain scenarios in accordance with the remuneration policy as disclosed on page 106.

Alan Dunsmore	£70,000
Ian Cochrane	£62,380
Adam Semple	£44,000
Derek Randall	£153,900

As reported last year, the bonus plan applicable to the executive directors for 2019 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.

For all directors (excluding Derek Randall)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	80%	£24.8m	£26.1m	£31.3m	£24.7m	0%	0%
Group AFR	20%	0.21	0.21	0.21	0.11	100%	20%
* 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.							20%

Derek Randall (JSSL managing director)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	40%	£24.8m	£26.1m	£31.3m	£24.7m	0%	0%
JSSL (India) PBT*	40%	10.0 Cr	15.0 Cr	25.0 Cr	27.1 Cr	100%	40%
JSSL (India) AFR	20%	0.11	0.11	0.11	–	100%	20%
* 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.							60%

DIRECTORS' REMUNERATION REPORT

The 2016 PSP awards are due to vest in June 2019, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2019. The minimum EPS figure required for vesting of 25 per cent of the award was c.5.06p which equates to a PBT of £18.6m. The EPS figure required for vesting at maximum of 100 per cent of the award was c.6.53p which equates to a PBT of £24.0m. The actual PBT achieved was £24.7m which equates to EPS of 6.65p and therefore it is estimated that 100 per cent of these awards will vest subject to continued service.

A summary is set out below:

PSP awards granted to directors in 2019 (audited)

Share awards were made in the year under the PSP scheme for the three year period expiring on 31 March 2021. 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
Alan Dunsmore	Nil-cost option	414,692	100%	350,000	EPS	3 financial years ending 31 March 2021	25%
Ian Cochrane	Nil-cost option	360,556	100%	304,309			
Derek Randall	Nil-cost option	222,372	75%	187,682			
Adam Semple	Nil-cost option	195,498	75%	165,000			

[1] Face value calculated based on the pre-grant date share price of 84.40p on 20 June 2018.

[2] Performance conditions are based on EPS targets of 7.88 (minimum performance – 25% vests) to 9.75p (maximum performance – 100% vests) with linear interpolation in between. This represents a PBT range of £29.5m-£36.5m.

The PSP and the annual bonus plan contain malus and clawback provisions (together 'clawback') 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 triggers for which clawback can apply have been extended to cases of corporate failure, severe downturn of financial or operational performance and serious reputational damage, in addition to misconduct 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 2018	Awards granted in year	Awards lapsed in year	Awards vested in year[4]	Awards held at 31 March 2019
Alan Dunsmore	2015	2018	EPS	248,656	–	(11,364)	(253,110)	–
	2016	2019	EPS	492,714	–	–	–	492,714
	2017	2020	EPS	304,549	–	–	–	304,549
	2018	2021	EPS	–	414,692	–	–	414,692
Total				**1,045,919**	**414,692**	**(11,364)**	**(253,110)**	**1,211,955**
Ian Cochrane	2015	2018	EPS	302,366	–	(13,818)	(307,782)	–
	2016	2019	EPS	436,637	–	–	–	436,637
	2017	2020	EPS	269,888	–	–	–	269,888
	2018	2021	EPS	–	360,556	–	–	360,556
Total				**1,008,891**	**360,556**	**(13,818)**	**(307,782)**	**1,067,081**
Derek Randall	2015	2018	EPS	248,656	–	(11,364)	(253,110)	–
	2016	2019	EPS	359,071	–	–	–	359,071
	2017	2020	EPS	221,948	–	–	–	221,948
	2018	2021	EPS	–	222,372	–	–	222,372
Total				**829,675**	**222,372**	**(11,364)**	**(253,110)**	**803,391**
Adam Semple	2015	2018	EPS	26,388	–	(1,206)	(26,861)	–
	2016	2019	EPS	48,241	–	–	–	48,241
	2017	2020	EPS	31,655	–	–	–	31,655
	2018	2021	EPS	–	195,498	–	–	195,498
Total				**106,284**	**195,498**	**(1,206)**	**(26,861)**	**275,394**
				2,990,769	**1,193,118**	**(37,752)**	**(840,863)**	**3,357,821**

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

	Threshold (25% vests)	Maximum (100% vests)
2016 award[1]	5.06p	6.53p
2017 award[2]	6.76p	7.98p
2018 award[3]	7.88p	9.75p

[1] Represents a PBT range of £18.6m - £24.0m.

[2] Represents a PBT range of £25.0m - £29.5m.

[3] Represents a PBT range of £29.5m-£36.5m.

[4] Total of shares vested was higher than total of shares granted since, in accordance with the rules of the plan, additional shares were awarded at vesting representing dividend entitlement accrued during the three year performance period.

DIRECTORS' REMUNERATION REPORT

Statement of directors' shareholding

As at 31 March 2019, all executive directors and their connected persons have a shareholding as follows:

	Actual share ownership as a percentage of shareholding requirement as at 31 March 2019[1]
Alan Dunsmore	51%
Ian Cochrane	283%
Adam Semple	5%
Derek Randall	84%

[1]Value of actual share ownership was calculated with reference to the closing mid-market share price at 31 March 2019 of 68.80p. The shareholding requirement increased to 200 per cent for the chief executive officer and the Group finance director under the new remuneration policy, approved at the 2017 AGM, 150 per cent for all other executive directors. In the light of the increased PSP award made to Ian Cochrane (100 per cent of salary) in June 2018 (which will be repeated in June 2019) his shareholding requirement was increased to 200 per cent and in the light of the reduced PSP award made to Adam Semple (75 per cent of salary) in June 2018 (which will be repeated in June 2019) his shareholding requirement was reduced to 150 per cent. Adam Semple was appointed to the board on a permanent basis on 1 February 2018 and has had only a short period of time in which to build up a shareholding.

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2019, other than Chris Holt who left the Company on 4th September 2018 and whose holdings are stated as at that date.

	Owned shares[1]	Share incentive plan (SIP)[2]	Sharesave scheme	DSBP[3]	PSP[4]	Total[5]
Executives						
Alan Dunsmore	519,915	18,447	26,470	277,489	1,211,955	2,054,276
Ian Cochrane	2,352,863	18,447	26,470	298,291	1,067,081	3,763,152
Adam Semple	20,436	–	11,250	13,098	275,394	320,178
Derek Randall	469,214	4,667	–	243,388	803,391	1,520,660
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 106.

[4] PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2016 awards which had not actually vested as at 31 March 2019.

[5] 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. Some of 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 24 May 2019, 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 on the next page.

Executives	New SIP shares since 31 March 2019	Total SIP shares at 24 May 2019
Ian Cochrane	333	18,780
Alan Dunsmore	333	18,780

Position against dilution limits

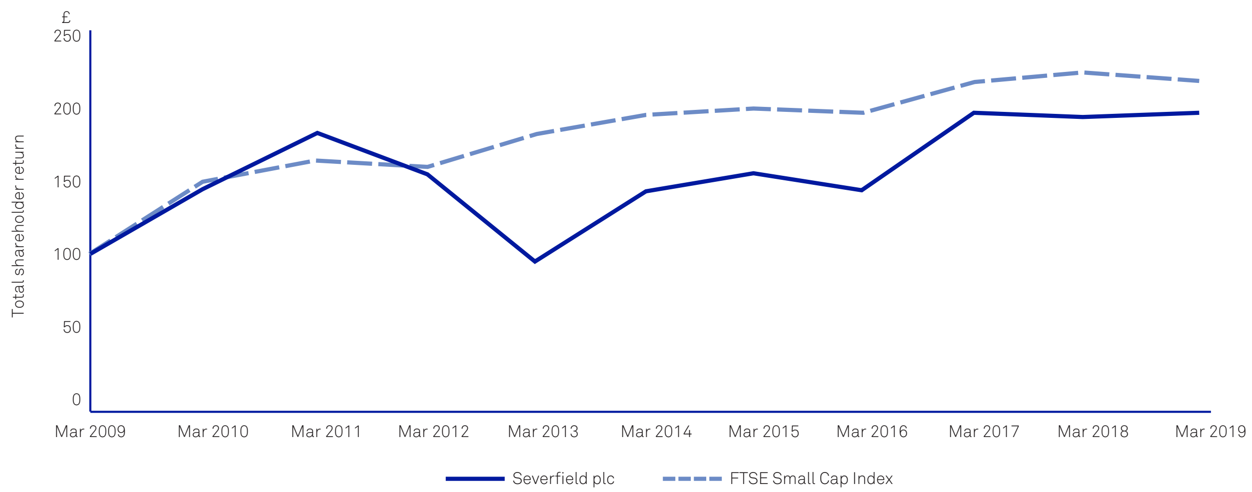
Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan (SIP), sharesave scheme and the PSP) must not exceed 10 per cent of the issued share capital in any rolling 10-year period. Within this 10 per cent limit, the Group can only issue 5 per cent of its issued share capital to satisfy awards under executive discretionary schemes. The Group's position against its dilution limit as at 31 March 2019 was under the maximum 10 per cent limit at 7.2 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 ten-year period ended 31 March 2019.

This index was selected as it represents a broad equity market index and is considered to be the most appropriate comparator group of companies over a 10 year period commencing March 2009.

Total shareholder return



Source: Factset

Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same ten-year period. Total remuneration includes bonuses and the value of PSP awards which vested (or in the case of 2019 are expected to vest) based on performance in those years (at the share price at which they vested or, in the case of the 2019 figures, at the average share price for the quarter immediately prior to the year-end).

Chief executive officer remuneration change:

	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	2018 Lawson[5]	2018 Dunsmore[5]	2019 Dunsmore
Total remuneration £'000	1,265	640	701	450	62	289	233	681	946	1,228	738	819	890
Annual bonus (%)	94.8%	50.1%	60.5%	–	N/A	N/A	34.0%	65.0%	63.0%	95.0%	–	62.6%	20.0%
LTIP vesting (%)	100.0%	100.0%	–	–	N/A	N/A	–	–	64.0%	74.0%	95.4%	95.4%	100.0%

[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.

[5] Ian Lawson received compensation of £408,000 for loss of office in accordance with his contract.

[6] Alan Dunsmore operated as interim chief executive officer from 1 April 2017 to 31 January 2018, during Ian Lawson's absence due to physical ill health. Alan's appointment to this role was made permanent from 1 February 2018. The figures in the table above represent Ian Lawson's remuneration for this period and Alan Dunsmore's remuneration for the period in which he was both interim and permanent chief executive officer.

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.

	2019 £000	2018 £000	% change
Chief executive officer			
Salary	**350.0**	330.3	6.0%*
Benefits	**18.6**	16.1	15.5%
Bonus	**70.0**	206.0	-66.0%
Average employees			
Salary	**48.7**	46.5	4.7%
Benefits	**3.8**	3.4	11.8%
Bonus	**2.2**	3.4	-35.3%

*This increase represents the increase awarded to Alan Dunsmore on his permanent appointment as chief executive officer in February 2018.

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 the results of JVs and associates:

	2019 £000	2018 £000	% change
Staff costs	**64,614**	70,237	-8.0%
Revenue	**274,917**	274,203	0.3%
Underlying operating profit	**23,256**	22,866	1.7%
Dividends	**13,353**	7,490	78.3%

Shareholder voting

The results below show the response to the 2018 AGM shareholder voting for the directors' 2018 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	239,005,356	99.95%
Against	114,588	0.05%
Total votes cast (for and against)	239,119,944	100%
Withheld votes	94,000	N/A
Total votes (including withheld votes)	239,213,944	N/A

The results below show the response to the 2017 AGM shareholder voting for the directors' 2017 remuneration policy:

	Total number of votes	% of votes cast
For	231,684,761	99.66%
Against	801,189	0.34%
Total votes cast (for and against)	232,485,950	100%
Withheld votes	60,928	N/A
Total votes (including withheld votes)	232,546,878	N/A

Implementation of policy for 2020

The executive directors' current salaries

The salaries of the executive directors will be reviewed in July 2019. Increases will be set in the context of overall salary increases for the wider workforce, unless special circumstances apply.

The executive directors' salaries at the start of the 2020 financial year are as follows:

	£
Alan Dunsmore	350,000
Ian Cochrane	311,900
Adam Semple	220,000
Derek Randall	256,500

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. Alan Dunsmore will receive a salary payment in lieu of pension contribution of 20 per cent of basic salary up to a maximum of £75,000 and Adam Semple will be offered a pension contribution of 18 per cent of salary up to a maximum of £50,000. Ian Cochrane and Derek Randall will each receive a salary payment in lieu of pension contribution of £50,000.

Rewards for performance in 2020

Bonus

The annual bonus for 2020 will operate on the same basis as for 2019 and will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity, deferral, clawback provisions and performance measures. The performance measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group. The majority of the bonus is subject to financial targets.

The performance measures and weightings will be as follows:

Profit performance-based component — 80 per cent

The sliding scale range for bonus targets in 2020 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.

Other performance-based component — 20 per cent

A new safety metric is being used this year called incident frequency rate ('IFR'). This will be used throughout the Group†. IFR is an industry recognised and measurable target and is calculated based on the number of all reported injuries in a year (rather than just those that are reportable to the HSE).

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 safety component of his bonus will continue to be based on AFR (India).

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 chief operating officer and 75 per cent of salary to the Group finance director and the JSSL managing director.

This year, we will set a performance condition for a three-year period commencing on 1 April 2019 and ending on 31 March 2022. 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 £31.0m. 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 £38.3m. 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.

DIRECTORS' REMUNERATION REPORT

This represents an increase in the lower vesting threshold of £1.5m (five per cent) and in the threshold at which maximum vesting takes place of £1.8m (five 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 2020 financial year?

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

£	2020	2019
Chairman	125,000	125,000
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

Approval

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

Alun Griffiths
Chairman of the remuneration committee
19 June 2019

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 International Financial Reporting Standards as adopted by the European Union (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, relevant, reliable 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 statement that complies 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:

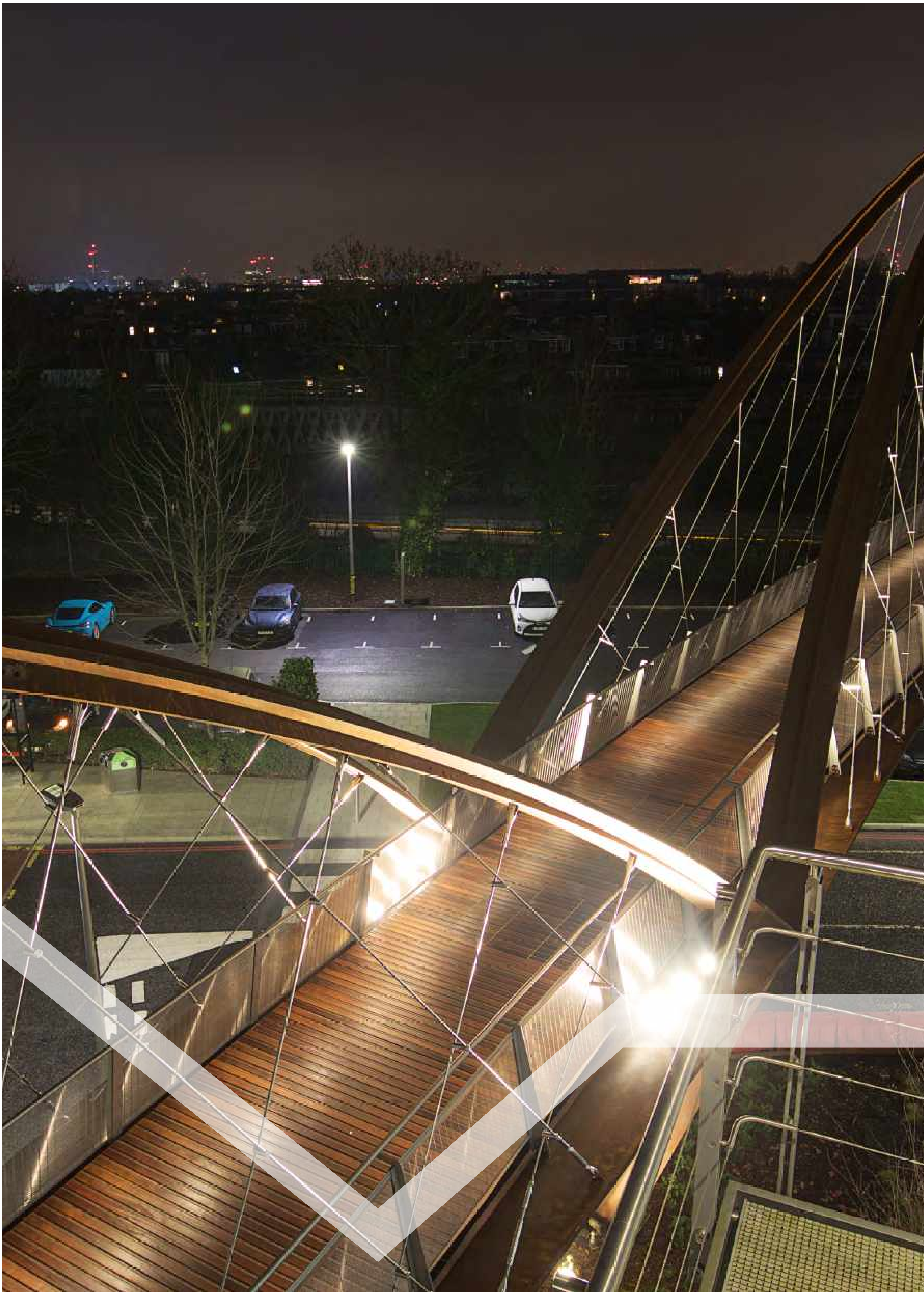
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report 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

Alan Dunsmore
Chief executive officer
19 June 2019

Adam Semple
Group finance director
19 June 2019



OUR FINANCIALS

Our financials — Group

Our financials — Company

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc

1. Our opinion is unmodified

We have audited the financial statements of Severfield plc ("the Company") for the year ended 31 March 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity and the related notes, including the accounting policies in note 1.

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 2019 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.

Basis for opinion

We have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 2 September 2015. The period of total uninterrupted engagement is for the four financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£1,200,000 (2018: £1,100,000) 4.9% (2018: 5.0%) of total Group profit before tax	
Coverage	97% (2018: 98%) of total Group profit before tax	
Key Audit Matters		**vs 2018**
Event Driven	The impact of uncertainties due to the UK exiting the European Union on our audit	↑
Recurring risks	Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts	←→
	Carrying value of parent Company's investments in subsidiaries, joint ventures and associates	←→

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to pages 38 to 45 (operating performance), pages 46 to 50 (financial performance), page 50 (viability statement), pages 66 to 74 (principal risks) and pages 92 to 95 (audit committee report).*	All audits assess and challenge the reasonableness of estimates, in particular as described in the carrying value of construction contract assets and revenue and profit recognised on construction contracts below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the annual report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge**: We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. – **Sensitivity analysis**: When addressing the carrying value of construction contract assets and revenue and profit recognised on construction contracts and other audit areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – **Assessing transparency**: As well as assessing individual disclosures as part of our procedures on the carrying value of construction contract assets and revenue and profit recognised on construction contracts, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results**: As reported under the carrying value of construction contract assets and revenue and profit recognised on construction contracts, we found resulting estimates and related disclosures of construction contacts and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc

	The risk	Our response
Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts Revenue: £274.9m (2018: £274.2m) Construction contract assets: £28.4m (2018: £32.0m) *Refer to pages 92 to 95 (audit committee report), pages 140, 142 and 145 (accounting policies, judgements and estimates) and note 16 (construction contracts).*	**Subjective estimate** The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract assets as well as the revenue and profit recognised are based on estimates of costs to complete and estimates of variable total consideration, such as instances where the value of variations is currently unagreed. Estimated contract costs, and as a result revenues, can be affected by a variety of uncertainties, including associated customer claims, that depend on the outcome of future events resulting in revisions throughout the contract period. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying value of contract assets, revenue and profit recognised on construction contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: – **Our sector experience**: Identifying high risk contracts with risk indicators including: low margin or loss making contracts with significant costs to complete estimates, uncertainty over variable consideration, significant disputes with customers, and large carrying value of contract assets. – **Tests of details**: For the high risk contracts identified, agreeing uncertain variable consideration to post-year-end cash, post-year-end customer certification, or customer agreed variation schedules, and challenging management where such evidence was not available. – **Our sector experience**: Assessing the forecasted cost to complete in the sample of high risk contracts identified by understanding contract performance and costs incurred post year-end along with discussions and challenge of management's costs to complete estimates against original budgets and current run rates; – **Tests of details**: Assessing the accuracy of costs incurred to date through sample testing, including an assessment of whether the cost sampled was allocated to the appropriate contract; – **Test of details**: Verifying the existence of customer claims to external correspondence and challenging management's assessment of these involving our own specialists to challenge the position taken; – **Historical comparisons**: Assessing the forecasting accuracy of contract margins by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved. – **Assessing transparency**: Assessing the adequacy of the Group's disclosures on revenue recognition and the degree of estimation involved in arriving at the construction contract assets and associated revenue and profit recognition. **Our results** We found the carrying value of construction contract assets, and the level of revenue and profit recognition in relation to construction contracts to be acceptable (2018: acceptable).

	The risk	Our response
Carrying value of parent Company's investments in subsidiaries, joint ventures and associates £104.1m (2018: £99.9m) *Refer to page 172 (accounting policy) and page 174 note 3 (investments).*	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries, joint ventures and associates represents 47% (2018: 47%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: – **Tests of detail**: Comparing the carrying amount of 100% of the investments balance with the relevant subsidiaries', joint ventures' and associates' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries, joint ventures and associates have historically been profit-making. – **Assessing subsidiary audits**: Assessing the work performed by the subsidiary and joint venture audit teams on all of those subsidiaries and joint ventures and considering the results of that work on those subsidiaries' and joint ventures' profits and net assets. – **Our sector experience**: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' and joint ventures' profit. **Our results:** We found the Group's assessment of the recoverability of the investment in subsidiaries, joint ventures and associates to be acceptable (2018: acceptable).

We continue to perform procedures over the carrying value of the investment in the JSSL joint venture. However, following a continued improvement in the profitability of the joint venture, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc

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 £1,200,000 (2018: £1,100,000), determined with reference to a benchmark of total Group profit before tax, of which it represents 4.9% (2018: 5.0% of total Group profit before tax).

Materiality for the parent Company financial statements as a whole was set at £900,000 (2018: £900,000), determined with reference to a benchmark of Company total assets, of which it represents 0.4% (2018: 0.4%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £60,000 (2018: £55,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2018: seven) reporting components, we subjected six (2018: six) to full scope audits for Group purposes. For the residual components, we performed analysis at a Group level to re-examine our assessment that there were no significant risks of material misstatement within those components.

The components within the scope of our work accounted for the percentages illustrated opposite.

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 £400,000 - £900,000 (2018: £250,000 - £900,000) having regard to the mix of size and risk profile of the Group across the components. The work on one of the nine components (2018: one of the seven components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

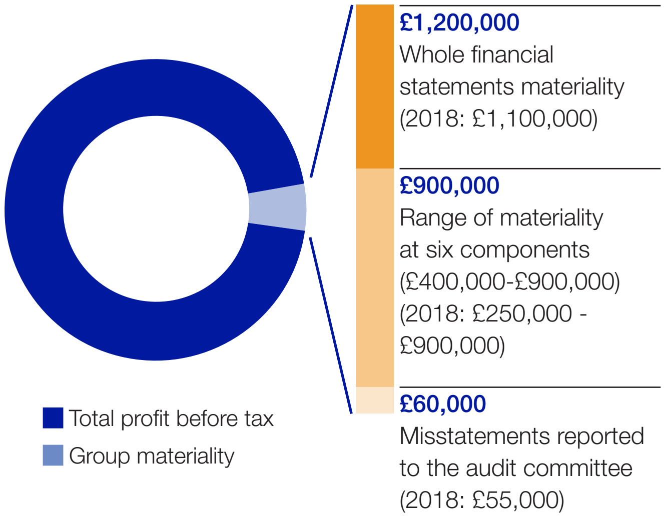
The Group team visited one (2018: one) component location in India (2018: India) to assess audit risk and strategy. Telephone conference meetings were also held with the component audit team. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Total profit before tax

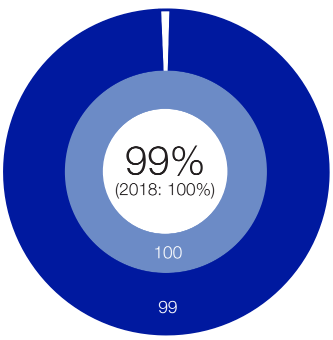
£24,711,000
(2018: £22,179,000)

Group materiality

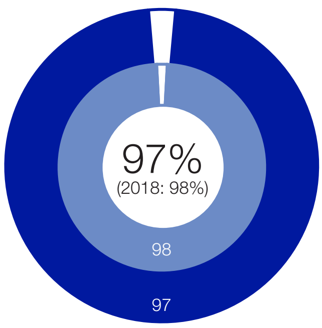
£1,200,000
(2018: £1,100,000)



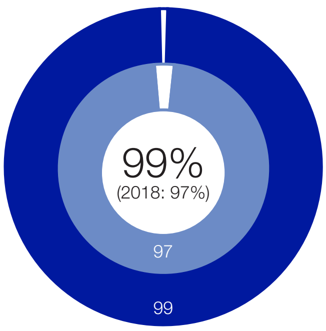
Total Group revenue



Total Group profit before tax



Group total assets



■ Full scope for Group audit purposes 2019

■ Full scope for Group audit purposes 2018

□ Residual components

4. We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Potential economic downturn and associated contraction of the construction industry.
- Potential future changes to key suppliers and the associated impact on margins.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules as set out on pages 50 and 100 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement (page 50) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 121, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Sovereign Square
Sovereign Street
Leeds
LS1 4DA
19 June 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2019

	Note	Underlying 2019 £000	Non-underlying 2019 £000	Total 2019 £000	Underlying 2018 £000	Non-underlying 2018 £000	Total 2018 £000
Continuing operations							
Revenue	3	**274,917**	**—**	**274,917**	274,203	—	274,203
Operating costs	4	**(251,661)**	**—**	**(251,661)**	(251,337)	(1,333)	(252,670)
Operating profit before share of results of JVs and associates		**23,256**	**—**	**23,256**	22,866	(1,333)	21,533
Share of results of JVs and associates	14	**1,650**	**—**	**1,650**	882	—	882
Operating profit		**24,906**	**—**	**24,906**	23,748	(1,333)	22,415
Net finance expense	7	**(195)**	**—**	**(195)**	(236)	—	(236)
Profit before tax		**24,711**	**—**	**24,711**	23,512	(1,333)	22,179
Taxation	8	**(4,549)**	**—**	**(4,549)**	(4,385)	352	(4,033)
Profit for the year attributable to the equity holders of the parent		**20,162**	**—**	**20,162**	19,127	(981)	18,146
Earnings per share:							
Basic	10	**6.65p**	**—**	**6.65p**	6.38p	(0.33p)	6.05p
Diluted	10	**6.58p**	**—**	**6.58p**	6.29p	(0.32p)	5.97p

Further details of 2018 non-underlying items are disclosed in note 5 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2019

	Note	2019 £000	2018 £000
Actuarial (loss)/gain on defined benefit pension scheme*	28	**(3,702)**	3,606
Gains taken to equity on cash flow hedges	23	**540**	435
Reclassification adjustments on cash flow hedges	23	**129**	(346)
Exchange difference on foreign operations	23	**16**	—
Tax relating to components of other comprehensive income*	19	**624**	(700)
Other comprehensive income for the year		**(2,393)**	2,995
Profit for the year from continuing operations		**20,162**	18,146
Total comprehensive income for the year attributable to equity holders of the parent		**17,769**	21,141

* These items will not be subsequently reclassified to the consolidated income statement.

CONSOLIDATED BALANCE SHEET

At 31 March 2019

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Goodwill	11	**54,712**	54,712
Other intangible assets	12	**—**	103
Property, plant and equipment	13	**83,986**	81,239
Interests in JVs and associates	14	**24,335**	18,456
		163,033	154,510
Current assets			
Inventories	15	**8,915**	9,646
Contract assets, trade and other receivables — due after one year £1,535 (2018: £1,768)	17	**57,117**	56,270
Derivative financial instruments	20	**762**	167
Cash and cash equivalents	20	**24,979**	33,114
		91,773	99,197
Total assets		**254,806**	253,707
Liabilities			
Current liabilities			
Trade and other payables	18	**(57,661)**	(64,225)
Financial liabilities — finance leases	20	**(49)**	(180)
Current tax liabilities		**(928)**	(1,645)
		(58,638)	(66,050)
Non-current liabilities			
Retirement benefit obligations	28	**(19,972)**	(17,248)
Financial liabilities — finance leases	20	**—**	(49)
Deferred tax liabilities	19	**(1,189)**	(1,363)
		(21,161)	(18,660)
Total liabilities		**(79,799)**	(84,710)
Net assets		**175,007**	168,997
Equity			
Share capital	22	**7,600**	7,492
Share premium		**87,254**	85,702
Other reserves	23	**3,819**	4,749
Retained earnings		**76,334**	71,054
Total equity		**175,007**	168,997

The consolidated financial statements were approved by the board of directors on 19 June 2019 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2018		7,492	85,702	4,749	71,054	168,997
Total comprehensive income for the year		—	—	685	17,084	17,769
Ordinary shares issued*		108	1,552	—	—	1,660
Equity settled share-based payments	21	—	—	(1,615)	1,549	(66)
Dividends paid		—	—	—	(13,353)	(13,353)
At 31 March 2019		7,600	87,254	3,819	76,334	175,007

* The issue of shares represents shares allotted to satisfy the 2015 Performance Share Plan award which vested in June 2018 and the 2015 Sharesave scheme.

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2017		7,471	85,702	3,710	57,274	154,157
Total comprehensive income for the year		—	—	89	21,052	21,141
Ordinary shares issued*		21	—	—	—	21
Equity settled share-based payments	21	—	—	950	218	1,168
Dividends paid		—	—	—	(7,490)	(7,490)
At 31 March 2018		7,492	85,702	4,749	71,054	168,997

* The issue of shares represents shares allotted to satisfy the 2014 Performance Share Plan award which vested in June and November 2017.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2019

	Note	2019 £000	2018 £000
Net cash flow from operating activities	24	**14,616**	19,039
Cash flows from investing activities			
Proceeds on disposal of land and buildings		**10**	—
Proceeds on disposal of other property, plant and equipment		**724**	1,012
Purchases of land and buildings		**(485)**	(412)
Purchases of other property, plant and equipment		**(6,516)**	(5,996)
Investment in JVs and associates		**(4,229)**	(5,506)
Net cash used in investing activities		**(10,496)**	(10,902)
Cash flows from financing activities			
Interest paid		**(382)**	(202)
Dividends paid		**(13,353)**	(7,490)
Proceeds from shares issued		**1,660**	—
Repayment of obligations under finance leases		**(180)**	(180)
Net cash used in financing activities		**(12,255)**	(7,872)
Net (decrease)/increase in cash and cash equivalents		**(8,135)**	265
Cash and cash equivalents at beginning of year		**33,114**	32,849
Cash and cash equivalents at end of year	25	**24,979**	33,114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

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 177. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 18 to 23. 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.

EU Endorsed International Financial Reporting Standards effective in the year

The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- 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.
- IFRIC 22 'Foreign currency transactions and advance considerations' – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- IFRS 2 'Share-based payment transactions' – amendments clarifying how to account for certain types of share-based payment transactions.
- IAS 40 'Investment property' – amendments relating to the transfers of investment property.
- Annual improvements to IFRS Standards 2014-2016 cycle.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction contracts'. The directors have completed a comprehensive assessment, on a sample of the Group's contracts, of the impact of the new standard and concluded that no material adjustments were required on initial application. This is because, under IFRS 15, the services provided under a typical contract for the Group represent one performance obligation, providing the customer with an integrated solution and where the services (and consequently any variations and claims) are highly inter-related. Furthermore, revenue on construction contracts meets the criteria for over time recognition under IFRS 15 and revenue will be recognised with reference to measurement of contract progress (costs to complete). This is similar to that under IAS 11 'Construction contracts'.

The new standard has been applied retrospectively without restatement, using the cumulative effect approach. As a result, the Group has reviewed its opening retained earnings position as at 1 April 2018 and concluded that there are no material adjustments in respect of the transition to IFRS 15 as the Group's previous methodology for accounting for contracted revenue is in line with the requirements of IFRS 15, therefore there has been no quantitative alterations as a result of the new standard.

Further details of the Group's revenue can be found in note 3.

IFRS 9 'Financial instruments'

IFRS 9 replaces IAS 39 'Financial instruments: recognition and measurement' sets out the requirements for recognising and measuring financial assets and financial liabilities. IFRS 9 introduces new models for the classification of financial assets and accounting for credit losses for the impairment of financial assets. The Group has adopted IFRS 9 from 1 April 2018 and in accordance with the transitional provisions of the standard, IFRS 9 was adopted without restating comparative information. The impact of adopting IFRS 9 on the Group's retained earnings as at 1 April 2018 was determined to be immaterial and as such no adjustments to the opening balance sheet have been recorded.

1. Significant accounting policies continued

The considerations relevant to this assessment are outlined below.

Classification and measurement

No changes were necessary to the classification or remeasurement of the Group's financial instruments, with derivative instruments remaining as measured at fair value through the profit and loss ('FVTPL'), or subject to the accounting provisions for hedge relationships under IFRS 9 where designated in effective hedge accounting relationships, and all other financial instruments remaining classified as measured at amortised cost under IFRS 9.

Derivatives and hedging activities

Certain of the Group's forward foreign currency contracts in place as at 1 April 2018 qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships continue to be treated as hedges.

Impairment of financial assets

The impairment of financial assets applying the expected credit loss model affects trade receivables and contract assets relating to construction contracts held by the Group. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, as these items do not have a significant financing component. There has been no material impact of the application of this new standard as the Group continues to manage credit risk with the use of insurance.

EU International Financial Reporting Standards not yet effective

The following new or revised standards and interpretations issued by the International Accounting Standards Board have not been applied in preparing these financial statements as their effective dates fall in periods beginning on or after 1 April 2019.

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.
- IFRIC 23 'Uncertainty over income tax treatments' – addresses the determination of taxable profit, tax bases, tax rates and unused tax losses and credits, where there is uncertainty over income tax treatments under IAS 12.
- IFRS 9 'Financial instruments' – amendments relating to prepayment features with negative compensation to address the concerns about how IFRS 9 classifies particular prepaid financial assets.
- IAS 28 'Investments in associates and joint ventures' – amendments to long-term interests in associates and joint ventures.
- IAS 19' Employee benefits' – amendments to accounting for curtailments and settlements.
- Annual improvements to IFRS Standards 2015-2017 cycle.

IFRS 16 'Leases'

The Group is required to adopt IFRS 16 'Leases' from 1 April 2019. The new standard will replace IAS 17 'Leases' and will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The new standard requires lessees to recognise right of use assets and liabilities in the balance sheet for all applicable leases. Operating lease costs currently recognised within operating profit in the income statement will be replaced by depreciation and finance costs. There are recognition exemptions for short-term leases and leases of low-value items.

Leases in which the Group is a lessee

The Group is planning to adopt IFRS 16 using the standard's modified retrospective approach. Under this approach, the Group will recognise new assets and liabilities for its operating leases of premises, plant and machinery and vehicles (see note 27). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Based on the information currently available, the Group estimates that it will recognise additional right-of-use assets of £11,200,000 and lease liabilities of £12,300,000 as at 1 April 2019 with the impact on the opening reserves at 1 April 2019 being £1,100,000. The key judgement made in calculating these estimates was the discount rate applied.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

1. Significant accounting policies continued

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 page 50.

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 returns 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 in previous years 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. There are no non-underlying items in the current financial year.

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, the amortisation of acquired intangible assets, movements in the valuation of derivative financial instruments and certain non-recurring legal and consultancy costs.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

1. Significant accounting policies continued

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 arises mainly from contracts for the design, fabrication and construction of structural steelwork. To determine whether to recognise revenue, the Group applies this five-step process:

1. Identify the contract(s) with the customer;
2. Identify the performance obligations in the contract(s);
3. Determine the transaction price of the contract(s);
4. Allocate the transaction price to each of the separate performance obligations; and
5. Recognise the revenue as each performance obligation is satisfied.

The Group enters into contracts for the design, fabrication and construction of structural steel projects in exchange for the agreed consideration and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. The transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract, which have yet to be agreed. Revenue recognised includes retentions and is net of rebates, discounts and value added tax. To depict the progress by which the Group transfers control of the construction to the customer, and to

1. Significant accounting policies continued

establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation by use of the input method (costs to complete). Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied or whether it is a modification to the existing performance obligation. This method is considered to most faithfully depict the transfer of goods and services to the customer over the life of the performance obligation.

The timing of payment from customers is generally aligned to revenue recognition, subject to agreed invoice terms. The majority of construction contracts have payment terms based on contractual milestones, which are not necessarily aligned to when revenue is recognised, particularly for those contracts where revenue is recognised over time using the input method to determine the percentage of completion. This generally leads to recognition of revenue in advance of customer billings, for which a contract asset is recognised. Where cash is received from the customer in advance of recognising revenue under a contract, a contract liability is recorded (advance payments from customers). The practical expedient available under IFRS 15 has been taken, thus the Group does not adjust the promised amount of consideration for the effects of financing if the timing difference between the satisfaction of the performance obligations under the contract and the receipt of payment due under the contract are expected to be one year or less.

The general principles for revenue recognition are as follows:

- Revenues on contracts are recognised over time, using the input method, 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 highly 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 highly 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 highly 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. 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.

The input method is used to determine the percentage of completion 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2019

1. Significant accounting policies continued

Contract assets
Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on construction contracts. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities
Contract liabilities primarily relate to the advance payments from customers for construction contracts, for which revenue is recognised over time.

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.

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 to new members. 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.

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.

1. Significant accounting policies continued

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.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

1. Significant accounting policies continued

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.

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, with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement in line with the requirements of IFRS 9.

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 IFRS 9 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IFRS 9 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 (operating costs).

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 design and work scope, the contractual terms and site conditions under which the work is being performed, delays, costs incurred, claims received by the Group, external certification of the work performed and the recoverability of any unagreed income from claims and variations.

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 recognised 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.

At the balance sheet date, amounts due from construction contract customers, included in contract assets, trade and other receivables was £47,983,000 (2018: £45,565,000).

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 26 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Critical accounting judgements and estimates continued

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 forecast discount and mortality rates (as disclosed in note 28). 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 £19,972,000 (2018: £17,248,000).

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:

	2019 £000	2018 £000
Revenue from construction contracts	274,917	274,203
Other operating income (note 4)	982	700
Interest received (note 7)	34	10
Total income	275,933	274,913

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 businesses have been aggregated as they have 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 below.

Revenues by product group

All revenue is derived from construction contracts and related assets.

Geographical information

Following the implementation of IFRS 15, the Group presents a disaggregation of its revenue according to the primary geographical markets in which the Group operates. This disaggregation of revenue is presented for the Group's one operating segment as noted above.

	2019 £000	2018 £000
Revenue by destination:		
United Kingdom	240,875	252,080
Republic of Ireland and mainland Europe	34,042	22,123
	274,917	274,203

3. Revenue and segmental analysis continued

Contract balances

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

	2019 £000	2018 £000
Receivables which are included in 'contract assets, trade and other receivables'	**47,983**	45,565
Contract assets	**28,419**	32,021
Contract liabilities (note 16)	**(1,349)**	(1,273)

Contract assets primarily relate to the Group's right to consideration for work completed but not billed at the reporting date on construction contracts. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance payments from customers for construction contracts, for which revenue is recognised over time. Included in contract liabilities at the beginning of the financial year was £1,273,000, which has been recognised as revenue for the year ended 31 March 2019.

There was no revenue recognised in the current financial year from performance obligations satisfied or partially satisfied in previous years.

The table below represents the aggregate amount of the transaction price allocated to be the performance obligations that are unsatisfied (or partially satisfied) as at 31 March 2019 and have an original expected contract duration of more than one year:

	2020 £000	2021 £000
Construction contracts	158,016	25,825

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earnt by the Group for goods and services which the Group has promised to deliver to its customers, where the original contract duration is more than one year. This includes performance obligations which are partially satisfied at the year end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future. The practical expedient available under IFRS 15 has been taken and therefore no information is provided for the transaction price allocated to the remaining performance obligations where the original expected contract duration is one year or less.

Information about major customers

No customers contributed more than 10 per cent of Group revenue in the year ended 31 March 2019. In the prior year, Group revenue included £55,739,000 and £39,047,000 relating to two major customers, who individually contributed more than 10 per cent of Group revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Operating costs

	2019 £000	2018 £000
Raw materials and consumables (including subcontractor costs)	**152,986**	142,617
Staff costs (note 6)	**64,614**	70,237
Other operating charges	**28,654**	32,851
Amortisation of other intangible assets (note 12)	**103**	138
Operating lease expense:		
— plant and machinery	**1,219**	1,277
— other	**1,418**	1,261
Depreciation (note 13):		
— owned property, plant and equipment	**3,556**	3,556
— property, plant and equipment held under finance leases	**93**	100
Other operating income	**(982)**	(700)
Operating costs before non-underlying items	**251,661**	251,337
Non-underlying items (note 5)	**—**	1,333
	251,661	252,670
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**21**	18
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	**164**	150
— audit-related assurance services	**25**	16
— other assurance services	**23**	34

Other operating income mainly represents research and development tax credits.

Fees payable to 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 £37,000 (2018: £38,000) 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 pages 94 and 95. No services were performed pursuant to contingent fee arrangements.

5. Non-underlying items

	2019 £000	2018 £000
Amortisation of acquired intangible assets (note 12)	**—**	1,333
Non-underlying items before tax	**—**	1,333
Tax on non-underlying items	**—**	(352)
Non-underlying items after tax	**—**	981

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 customer relationships were fully amortised during the previous financial year.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 112.

The average number of persons employed by the Group (including executive directors) during the year was:

	2019 Number	2018 Number
Production and site	1,132	1,221
Sales and administration	142	133
	1,274	1,354

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	55,988	61,290
Social security costs	6,096	6,707
Other pension costs	2,530	2,240
	64,614	70,237

Employee remuneration costs under share-based payment schemes are set out in note 21.

7. Net finance expense

	2019 £000	2018 £000
Finance income	(34)	(10)
Finance expense	229	246
	195	236

8. Taxation

a) The taxation charge comprises:

	2019 £000	2018 £000
Current tax		
UK corporation tax	(3,721)	(3,047)
Adjustments to prior years' provisions	(378)	(176)
	(4,099)	(3,223)
Deferred tax (note 19)		
Current year charge	(625)	(963)
Impact of reduction in future years' tax rates	—	99
Adjustments to prior years' provisions	175	54
	(450)	(810)
	(4,549)	(4,033)

8. Taxation continued

b) Tax reconciliation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2019 £000	2018 £000
Profit before tax	24,711	22,179
Tax on profit at standard UK corporation tax rate	(4,695)	(4,214)
Expenses not deductible for tax purposes	36	165
Tax effect of share of results of JVs and associates	313	39
Adjustments to prior years' provisions	(203)	(122)
Rate differences	—	99
	(4,549)	(4,033)

Corporation tax was calculated at 19 per cent (2018: 19 per cent) of the estimated taxable result for the year.

9. Dividends

	2019 £000	2018 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2018 of 1.7p per share (2017: 1.6p)	5,158	4,793
Special dividend for the year ended 31 March 2018 of 1.7p per share (2017: nil)	5,158	—
Interim dividend for the year ended 31 March 2019 of 1.0p per share (2018: 0.9p)	3,036	2,697
	13,353	7,490

The directors are recommending a final dividend in respect of the financial year ended 31 March 2019 of 1.8p per share, which will amount to an estimated dividend payment of £5,475,000. If approved by the shareholders at the annual general meeting on 3 September 2019, this dividend will be paid on 13 September 2019 to shareholders who are on the register of members at 16 August 2019. The final dividend is not reflected in the balance sheet as at 31 March 2019 as it is subject to shareholder approval.

10. Earnings per share

Earnings per share is calculated as follows:

	2019 £000	2018 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent Company	20,162	18,146
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent Company	20,162	19,127

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	303,092,067	299,682,810
Effect of dilutive potential ordinary shares	3,170,237	4,520,463
Weighted average number of ordinary shares for the purposes of diluted earnings per share	306,262,304	304,203,273
Basic earnings per share	6.65p	6.05p
Underlying basic earnings per share	6.65p	6.38p
Diluted earnings per share	6.58p	5.97p
Underlying diluted earnings per share	6.58p	6.29p

10. Earnings per share continued

Reconciliation of earnings	2019 £000	2018 £000
Net profit attributable to equity holders of the parent Company	20,162	18,146
Non-underlying items	—	981
Underlying net profit attributable to equity holders of the parent Company	20,162	19,127

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 (2018: 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 (2018: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2019.

Management has analysed a number of sensitivity scenarios 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 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2019

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
At 1 April 2017, 1 April 2018 and 31 March 2019	**39,000**	**1,033**	**40,033**
Amortisation			
At 1 April 2017	37,667	792	38,459
Charge for the year	1,333	138	1,471
At 1 April 2018	39,000	930	39,930
Charge for the year	—	103	103
At 31 March 2019	**39,000**	**1,033**	**40,033**
Carrying amount			
At 31 March 2019	**—**	**—**	**—**
At 31 March 2018	—	103	103

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 2017, 1 April 2018 and 31 March 2019	**25,800**	**3,200**	**9,600**	**400**	**39,000**
Amortisation					
At 1 April 2017	24,487	3,200	9,600	380	37,667
Charge for the year	1,313	—	—	20	1,333
At 1 April 2018	25,800	3,200	9,600	400	39,000
Charge for the year	—	—	—	—	—
At 31 March 2019	**25,800**	**3,200**	**9,600**	**400**	**39,000**
Net book value					
At 31 March 2018 and 31 March 2019	**—**	**—**	**—**	**—**	**—**

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

	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 2017	65,869	40,995	4,611	291	111,766
Additions	412	3,719	2,277	—	6,408
Disposals	—	(4,934)	(964)	(53)	(5,951)
At 1 April 2018	66,281	39,780	5,924	238	112,223
Additions	485	3,191	3,158	167	7,001
Disposals	(10)	(1,076)	—	(178)	(1,264)
At 31 March 2019	**66,756**	**41,895**	**9,082**	**227**	**117,960**
Accumulated depreciation					
At 1 April 2017	4,954	25,830	1,940	133	32,857
Charge for the year	536	2,628	428	64	3,656
Disposals	—	(4,573)	(918)	(38)	(5,529)
At 1 April 2018	5,490	23,885	1,450	159	30,984
Charge for the year	551	2,461	578	59	3,649
Disposals	—	(508)	—	(151)	(659)
At 31 March 2019	**6,041**	**25,838**	**2,028**	**67**	**33,974**
Carrying amount					
At 31 March 2019	**60,715**	**16,057**	**7,054**	**160**	**83,986**
At 31 March 2018	60,791	15,895	4,474	79	81,239

The net book value of the Group's plant and machinery includes £184,000 (2018: £602,000) 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:

	Holding %	Class of capital
Associated companies:		
Fabsec Limited — development of fire beam	25.0	Ordinary
Joint ventures:		
JSW Severfield Structures Limited — structural steelwork serving the Indian market	50.0	Ordinary
Construction Metal Forming 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.

JSW Severfield Structures Limited is registered in India. During the year, the Group invested a further £4,229,000 in the joint venture to support the expansion of the Bellary facility (which was matched by our joint venture partner, JSW Steel). During the prior year, the Group invested £5,506,000 in the joint venture to support the full repayment of the joint venture's term debt of c.£11.0m in June 2017, which was matched by JSW Steel.

14. Interests in JVs and associates continued

The Group did not make any further investments in either CMF Limited, or Fabsec Limited during the year (2018: £nil).

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 1 April 2017	5,326	6,742	12,068
Profit retained	—	882	882
Investments made during the year	—	5,506	5,506
At 1 April 2018	5,326	13,130	18,456
Profit retained	—	1,650	1,650
Investments made during the year	—	4,229	4,229
At 31 March 2019	**5,326**	**19,009**	**24,335**

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
2019	**—**	**1,225**	**425**	**1,650**
2018	—	532	350	882

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	2019 £000	2018 £000
Current assets	1,098	80,710*	10,063	**91,871**	59,111
Non current assets	66	24,651	4,581	**29,298**	27,785
Current liabilities	(5)	(75,046)	(7,186)	**(82,237)**	(60,175)
Non-current liabilities	(2,239)	(541)	(1,703)	**(4,483)**	(4,673)
Net assets	**(1,080)**	**29,774**	**5,755**	**34,449**	**22,048**
Groups share of net (liabilities)/assets	(270)	14,887	2,878	**17,495**	11,294
Goodwill	–	–	5,326	**5,326**	5,326
Accounting policy alignment	270	1,224	20	**1,514**	1,836
Carrying amount of interest in JVs and associates	**–**	**16,111**	**8,224**	**24,335**	**18,456**
Revenue	188	84,130	26,603	**110,921**	67,532
Depreciation and amortisation	(64)	(1,645)	(32)	**(1,741)**	(1,782)
Net finance expense	–	(2,230)	(118)	**(2,348)**	(3,286)
Taxation	7	(1,030)	(213)	**(1,236)**	(605)
Profit after tax	–	2,450	850	**3,300**	1,764
Group's share of profit after tax	**–**	**1,225**	**425**	**1,650**	**882**

* Includes cash and cash equivalents of £12,853,000 (2018: £2,477,000).

There were no contingent liabilities or capital commitments (2018: none) associated with the Group's JVs and associates.

15. Inventories

	2019 £000	2018 £000
Raw materials and consumables	6,315	4,971
Work-in-progress	2,600	4,675
	8,915	9,646

16. Construction contracts

	2019 £000	2018 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in contract assets, trade and other receivables	47,983	45,565
Amounts due to construction contract customers included in trade and other payables	(1,349)	(1,273)
	46,634	44,292
Contract costs incurred plus recognised profits less recognised losses to date	279,423	368,571
Less: progress billings received	(232,789)	(324,279)
	46,634	44,292

17. Contract assets, trade and other receivables

	2019 £000	2018 £000
Amounts due from construction contract customers (note 16):		
Trade receivables and other*	19,564	13,544
Contract assets	28,419	32,021
Total	47,983	45,565
Other receivables	1,479	1,941
Prepayments and accrued income	5,498	5,758
Amounts due from JVs and associates	2,157	3,006
	57,117	56,270

* Included in trade receivables and other is £1,535,000 (2018: £1,768,000) relating to retentions due after one year.

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 66 days (2018: 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. 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. The Group has rigorous procedures in place for monitoring and obtaining settlement of retentions in a prompt manner. Overdue retentions at 31 March 2019 were £57,000 (2018: £278,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

18. Trade and other payables

	2019 £000	2018 £000
Trade creditors	36,687	37,318
Other taxation and social security	5,540	5,291
Other creditors and accruals	12,889	19,631
Payments in advance (note 16)	1,349	1,273
Amounts owed to JVs and associates	1,196	712
	57,661	64,225

Other creditors and accruals in the current and prior years include the outstanding purchase consideration for CMF Limited of £2,000,000 (2018: £2,500,000), which is payable over the next four years, subject to certain conditions beyond the Group's control.

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 52 days (2018: 42 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:

	2019 £000	2018 £000
Deferred tax liabilities	(5,458)	(5,364)
Deferred tax assets	4,269	4,001
	(1,189)	(1,363)

Deferred tax is disclosed in the balance sheet as a deferred tax liability in the current and prior years.

	Excess capital allowances £000	Acquired intangible assets £000	Retirement benefit obligations £000	Trading losses £000	Other temporary differences £000	Total £000
At 1 April 2017	(5,294)	(253)	3,639	1,029	1,025	146
(Charge)/credit to income statement	(169)	253	(95)	(1,029)	132	(908)
Effect of change in tax rate	99	—	—	—	—	99
Charge to other comprehensive income	—	—	(613)	—	(87)	(700)
At 1 April 2018	(5,364)	—	2,931	—	1,070	(1,363)
(Charge)/credit to income statement	(94)	—	(166)	153	(343)	(450)
Credit/(charge) to other comprehensive income	—	—	629	—	(5)	624
At 31 March 2019	**(5,458)**	**—**	**3,394**	**153**	**722**	**(1,189)**

A reduction in the corporation tax rate to 17 per cent from 1 April 2020 was substantively enacted on 6 September 2016. 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.

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 Group monitors capital using the following indicators:

i) Gearing ratio

	2019 £000	2018 £000
Cash and cash equivalents	24,979	33,114
Unamortised debt arrangement fees	226	83
Finance leases	(49)	(229)
Net funds	25,156	32,968
Equity	175,007	168,997
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.

	2019 £000	2018 £000
Underlying operating profit		
Underlying operating profit (before JVs and associates)	23,256	22,866
Share of results of JVs and associates	1,650	882
	24,906	23,748
Capital employed:		
Shareholders' equity	175,007	168,997
Cash and cash equivalents	(24,979)	(33,114)
Borrowings	49	229
Net funds (for ROCE purposes)	(24,930)	(32,885)
Retirement benefit obligations (net of deferred tax) (note 28)	16,577	14,317
	166,654	150,429
Average capital employed	158,541	144,294
Return on capital employed	15.7%	16.5%

Categories of financial instruments

	Carrying value 2019 £000	2018 £000
Financial assets		
Cash and cash equivalents	24,979	33,114
Trade receivables and other (note 17)	19,564	13,544
Derivative financial instruments	762	167
Financial liabilities		
Trade creditors (note 18)	(36,687)	(37,318)
Other creditors and accruals (note 18)	(12,889)	(19,631)
Finance leases	(49)	(229)

20. Financial instruments continued

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.

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 2019 were £4,559,000 (2018: £4,827,000).

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.

Consideration of potential future events is taken into account when deciding when, and how much, to impair the Group's contract assets and trade receivables. The Group does not expect to report credit losses which would materially impact the income statement. In recent reporting periods credit losses in the income statement have been immaterial. In addition, the Group takes out credit insurance for the majority of the Group's debt profile.

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.

20. Financial instruments continued

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.

On 31 October 2018, the Group refinanced its existing borrowing facilities of £25,000,000 with HSBC Bank plc and Yorkshire Bank. The new facility, also a £25,000,000 revolving credit facility ('RCF'), matures in October 2023. The facility continues to include 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 new facility is subject to certain covenants including the cover of interest costs and the ratio of net debt to EBITDA.

As at 31 March 2019, £25,000,000 (2018: £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 trade creditors and other creditors and accruals.

		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 – 2019						
Trade and other payables	**49,576**	**47,142**	**2,081**	**49**	**304**	**49,576**
Financial liabilities — finance leases	**49**	**49**	**—**	**—**	**—**	**49**
	49,625	**47,191**	**2,081**	**49**	**304**	**49,625**
Liabilities – 2018						
Trade and other payables	56,949	51,664	5,032	49	204	56,949
Financial liabilities — finance leases	229	45	135	49	—	229
	57,178	51,709	5,167	98	204	57,178

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.

20. Financial instruments continued

The carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Euro	**(4,636)**	(1,830)	**4,380**	13,004
US dollar	**(10)**	(10)	**16**	25
	(4,646)	(1,840)	**4,396**	13,029

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	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Profit or loss and equity	**(1)**	(1)	**1,838**	1,817

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.

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 2019, derivatives designated as cash flow hedges had a net carrying amount of £762,000 (2018: £167,000) and recognised total gains of £669,000 (2018: £89,000) in equity and losses of £74,000 (2018: £31,000) in profit and loss in the period.

At 31 March 2019, the Group had forward exchange contracts of 20.4m euros (2018: 33.1m euros) at an average exchange rate of €1.126/£ (2018: €1.129/£) 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 market risk 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.

20. Financial instruments continued

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 2019 and the Group's equity at that date would decrease by £nil (2018: £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, under 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 111 to 120.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £472,000 for the year (2018: £1,270,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.76 per share. Three outstanding awards had been granted to 31 March 2019:

- During the year ended 31 March 2017 the remuneration committee granted 3,573,293 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 ended 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 £422,000 (2018: £301,000).

21. Share-based payments continued

- During the year ended 31 March 2018 the remuneration committee granted 2,261,000 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 2017 to 31 March 2020. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2020	% of award vesting
Equal to less than 6.76p	0%
Equal to 7.98p or better	100%
Between 6.76p and 7.98p	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	£0.83*
Exercise price	nil
Expected volatility (using historic performance)	26%
Risk-free rate	0.5%
Dividend	2.7p
Actual life	three years

* Granted on 14 June 2017.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £50,000 (2018: £522,000).

- During the period ended 31 March 2019 the remuneration committee granted 2,224,808 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 2018 to 31 March 2021. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2021	% of award vesting
Equal to less than 7.88p	0%
Equal to 9.75p or better	100%
Between 7.88p and 9.75p	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	£0.84*
Exercise price	nil
Expected volatility (using historic performance)	37%
Risk-free rate	0.8%
Dividend	3.0p
Actual life	three years

* Granted on 20 June 2018.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £nil (2018: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2019 Number	2018 Number
Outstanding at the beginning of the year	7,297,044	8,004,458
Granted during the year	2,224,808	2,261,100
Lapsed during the year	(244,921)	(1,319,483)
Vested during the year	(2,192,691)	(1,649,031)
Outstanding at the end of the year	7,084,240	7,297,044

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. During the financial year, the options granted under the 2015 Sharesave scheme became exercisable.

Under the 2017 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 2017 Sharesave scheme in 2020, these options will become exercisable for a period of six months. A charge of £135,000 (2018: £135,000) was recognised in the current period in relation to the 2017 Sharesave scheme.

Under the 2018 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 2018 Sharesave scheme in 2021, these options will become exercisable for a period of six months. A charge of £183,000 (2018: £nil) was recognised in the current period in relation to the 2018 Sharesave scheme.

Reconciliation of share awards outstanding under the Sharesave plan are as follows:

Save As You Earn option plan ('Sharesave')

	2019 Number	2018 Number
Outstanding at the beginning of the year	**5,771,734**	3,330,809
Granted during the year	**2,622,874**	2,880,236
Lapsed during the year	**(1,090,436)**	(383,319)
Vested during the year	**(3,079,972)**	(55,992)
Outstanding at the end of the year	**4,224,200**	5,771,734

22. Share capital

	2019 £000	2018 £000
Issued and fully paid:		
303,984,746 ordinary shares of 2.5p each (2018: 299,682,810 ordinary shares of 2.5p each)	**7,600**	7,492

The ordinary shares carry no right to fixed income. There are no share options outstanding as at 31 March 2019 (2018: nil).

23. Other reserves

	Share-based payment reserve £000	Capital redemption reserve £000	Hedge accounting reserve £000	Currency translation reserve £000	Total £000
At 1 April 2017	3,554	139	17	–	3,710
Share-based payments	950	–	–	–	950
Gains taken to equity on cash flow hedges	–	–	435	–	435
Reclassification adjustments on cash flow hedges	–	–	(346)	–	(346)
At 31 March 2018	**4,504**	**139**	**106**	**–**	**4,749**
Share-based payments	(1,615)	–	–	–	(1,615)
Gains taken to equity on cash flow hedges	–	–	540	–	540
Reclassification adjustments on cash flow hedges	–	–	129	–	129
Exchange difference on foreign operations	–	–	–	16	16
At 31 March 2019	**2,889**	**139**	**775**	**16**	**3,819**

The movement in the share-based payment reserve represents the share-based payment charge of £790,000 (2018: £1,770,000) offset by the recycle to retained earnings of £576,000 for share awards vested in 2018 and £857,000 for tax paid on these awards and £972,000 for the 2015 Sharesave Scheme which became exercisable during the financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

24. Net cash flow from operating activities

	2019 £000	2018 £000
Operating profit from continuing operations	**24,906**	22,415
Adjustments:		
Depreciation of property, plant and equipment (note 13)	**3,649**	3,656
Gain on disposal of other property, plant and equipment	**(129)**	(590)
Amortisation of intangible assets (note 12)	**103**	1,471
Movements in pension scheme (note 28)	**(978)**	(560)
Share of results of JVs and associates (note 14)	**(1,650)**	(882)
Share-based payments	**(66)**	1,168
Operating cash flows before movements in working capital	**25,835**	26,678
Decrease/(increase) in inventories	**731**	(1,896)
(Increase)/decrease in receivables	**(1,969)**	10,064
Decrease in payables	**(6,625)**	(11,897)
Cash generated from operations	**17,972**	22,949
Tax paid	**(3,356)**	(3,910)
Net cash flow from operating activities	**14,616**	19,039

	2019 £000	2018 £000
Cash generated from operations	**17,972**	22,949
Proceeds on disposal of land and buildings	**10**	—
Proceeds on disposal of other property, plant and equipment	**724**	1,012
Purchases of land and buildings	**(485)**	(412)
Purchases of other property, plant and equipment	**(6,516)**	(5,996)
	11,705	17,553
Underlying operating profit (before JVs and associates)	**23,256**	22,866
Operating cash conversion	**50%**	77%

25. Analysis of net funds

	2019 £000	2018 £000
Cash and cash equivalents	**24,979**	33,114
Unamortised debt arrangement fees	**226**	83
Financial liabilities — finance leases	**(49)**	(229)
	25,156	32,968

26. 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 the 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 legal or contractual 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 2019 this amounted to £nil (2018: £nil). The Group has also given performance bonds in the normal course of trade.

27. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2019 and 2087.

The total future minimum lease rentals are as follows:

	2019 £000	2018 £000
Minimum lease rentals due:		
— Within one year	1,153	996
— After one year and within five years	4,316	4,024
— After five years	10,297	10,839
	15,766	15,859

The Group also leases certain items of plant and machinery and vehicles whose total future minimum lease rentals are as follows:

	2019 £000	2018 £000
Minimum lease rentals due:		
— Within one year	968	1,168
— After one year and within five years	1,197	1,146
— After five years	—	1
	2,165	2,315

The Group as lessor

The Group's property rental operating leases expired at the end of the 2018 financial year, as a result no property rental income was earned on owned properties in the current year (2018: £69,000).

28. 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 £2,304,000 (2018: £1,896,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2019, contributions of £370,000 (2018: £367,000) due in respect of the current reporting period had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2019

28. Retirement benefit obligations continued

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 was carried out at 5 April 2017 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. 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.

	2019 %	2018 %
Key assumptions used:		
Discount rate	2.4	2.6
Inflation (RPI)	3.4	3.3
Future pension increases	3.2	3.2

When considering mortality assumptions a life expectancy to 85 at age 65 has been used for the year ended 31 March 2019 (2018: 84).

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 4.1%
Rate of mortality	Increase by one year	Increase by 3.9%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2019 £000	2018 £000
Interest cost	1,065	1,222
Interest income	(635)	(659)
	430	563

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 £20,186,000 (2018: £16,484,000).

The actual return on scheme assets was a gain of £1,286,000 (2018: £171,000).

28. Retirement benefit obligations continued

The amount included in the balance sheet arising from the Group's obligations in respect of the defined benefit retirement scheme is as follows:

	2019 £000	2018 £000
Present value of defined benefit obligations	(45,561)	(41,818)
Fair value of scheme assets	25,589	24,570
	(19,972)	(17,248)

The major categories of scheme assets as a percentage of the total scheme assets are as follows:

	2019 %	2018 %
Equities	16.6	23.4
Bonds and gilts	59.8	48.4
Cash	2.3	14.4
Property	9.8	9.6
Other	11.5	4.2
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately one per cent of bonds have a sub-investment grade credit rating (BB+ or lower) and approximately 93 per cent of gilts are index-linked, with seven per cent being fixed.

Movements in the present value of defined benefit obligations were as follows:

	2019 £000	2018 £000
At start of year	(41,818)	(45,816)
Interest cost	(1,065)	(1,222)
Actuarial (losses)/gains	(4,353)	4,094
Benefits paid	1,675	1,126
At end of year	(45,561)	(41,818)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were losses of £2,917,000 (2018: gains of £3,730,000), losses of £1,452,000 (2018: gains of £164,000) and gains of £16,000 (2018: gains of £200,000) respectively.

Movements in the fair value of scheme assets were as follows:

	2019 £000	2018 £000
At start of year	24,570	24,402
Interest income	635	659
Actuarial gains/(losses)	651	(488)
Employer contributions	1,408	1,123
Benefits paid	(1,675)	(1,126)
At end of year	25,589	24,570

The Group expects to contribute £128,000 (2018: £97,000) per month to its defined benefit pension scheme in the year to 31 March 2020.

28. Retirement benefit obligations continued

History of experience of gains and losses:

	2019	2018	2017	2016	2015
Experience gains/(losses) on scheme assets (£000)	651	(488)	420	(427)	1,517
Percentage of scheme assets	2.5%	(2.0%)	1.7%	(1.8%)	6.7%
Experience losses/(gains) on scheme liabilities (£000)	16	200	347	397	(364)
Percentage of the present value of scheme liabilities	0.0%	0.5%	0.8%	1.1%	(0.9%)
Total amount recognised in the consolidated statement of comprehensive income (£000)	(3,702)	3,606	(7,412)	1,300	(4,471)
Percentage of the present value of scheme liabilities	(8.1%)	8.6%	(16.2%)	3.5%	(11.5%)

The weighted average period over which benefits are expected to be paid, or the duration of the liabilities, is currently 17 years.

29. Related party transactions

The remuneration of the directors is provided in the audited part of the directors' remuneration report on page 112.

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:

	2019 £000	2018 £000
Short-term employee benefits	2,095	1,863
Contributions into pension schemes	143	123
	2,238	1,986

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 £48,000 (2018: £42,000). The amount due to Fabsec at 31 March 2019 was £117,000 (2018: £117,000).

During the year the Group has contracted with and purchased services from Construction Metal Forming Limited ('CMF') amounting to £11,691,000 (2018: £3,650,000). The amount due from and to CMF at 31 March 2019 was £1,300,000 (2018: £2,544,000) and £1,060,000 (2018: £595,000) 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 £418,000 (2018: £478,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2019 was £857,000 (2018: £746,000). During the year the Group contracted with and purchased services from JSSL amounting to £35,000 (2018: £nil). The amount due to JSSL at 31 March 2019 was £18,000 (2018: £nil).

FIVE YEAR SUMMARY

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Results					
Revenue	**274,917**	274,203	262,224	239,360	201,535
Underlying* operating profit (before JVs and associates)	**23,256**	22,866	19,614	13,686	8,974
Underlying* profit before tax	**24,711**	23,512	19,845	13,211	8,311
Non-underlying items before tax	**—**	(1,333)	(1,790)	(3,568)	(8,502)
Profit attributable to equity holders of Severfield plc	**20,162**	18,146	15,329	8,600	144
Assets employed					
Non-current assets	**163,033**	154,510	148,292	149,265	145,078
Net current assets	**33,135**	33,147	28,391	16,837	16,565
Non-current liabilities	**(21,161)**	(18,660)	(22,526)	(17,896)	(21,059)
Net assets	**175,007**	168,997	154,157	148,206	140,584
Key statistics					
Earnings per share:					
Basic — underlying*	**6.65p**	6.38p	5.53p	3.67p	2.31p
Basic	**6.65p**	6.05p	5.13p	2.89p	0.05p
Diluted — underlying*	**6.58p**	6.29p	5.49p	3.65p	2.31p
Diluted	**6.58p**	5.97p	5.09p	2.87p	0.05p
Dividends per share	**2.80p**	2.60p	2.30p	1.50p	—
Dividend cover (times) — underlying* basis	**2.5**	2.6	2.4	2.4	—
Share price — high	**88.20p**	88.00p	83.50p	73.25p	72.00p
— low	**64.60p**	59.50p	43.75p	52.75p	53.50p

* The basis of stating results on an underlying basis is set out on page 5. Dividend cover for the current year excludes the special dividend for the year ended 31 March 2018.

FINANCIAL CALENDAR

Preliminary announcement of full-year results	19 June 2019
Publication of annual report	August 2019
Annual general meeting	3 September 2019
Announcement of interim results (provisional)	26 November 2019

COMPANY BALANCE SHEET

Year ended 31 March 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	2	57,696	58,241
Intangible assets		—	103
Investments	3	104,093	99,864
		161,789	158,208
Current assets			
Debtors — amounts falling due within one year	4	61,049	53,398
Cash at bank and in hand		905	2,095
		61,954	55,493
Creditors — amounts falling due within one year	5	(95,705)	(94,546)
Net current liabilities		(33,751)	(39,053)
Total assets less current liabilities		128,038	119,155
Capital and reserves			
Share capital		7,600	7,492
Share premium		87,254	85,702
Other reserves		2,989	4,604
Profit and loss account		30,195	21,357
Equity and total shareholders' funds		128,038	119,155

The Company reported a profit for the financial year ended 31 March 2019 of £20,642,000 (2018: £12,047,000).

The financial statements were approved by the board of directors on 19 June 2019 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

Severfield plc
Registered in England No.1721262

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2018	**7,492**	**85,702**	**4,604**	**21,357**	**119,155**
Total comprehensive income for the year	**—**	**—**	**—**	**20,642**	**20,642**
Ordinary shares issued*	**108**	**1,552**	**—**	**—**	**1,660**
Equity settled share-based payments	**—**	**—**	**(1,615)**	**1,549**	**(66)**
Dividends paid	**—**	**—**	**—**	**(13,353)**	**(13,353)**
At 31 March 2019	**7,600**	**87,254**	**2,989**	**30,195**	**128,038**

* The issue of shares represents the shares allotted to satisfy the 2015 Performance Share Plan award, which vested in June 2018 and the 2015 Sharesave scheme.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2017	7,471	85,702	3,543	16,582	113,298
Total comprehensive income for the year	—	—	—	12,047	12,047
Ordinary shares issued*	21	—	—	—	21
Liquidation of subsidiary undertakings	—	—	111	—	111
Equity settled share-based payments	—	—	950	218	1,168
Dividends paid	—	—	—	(7,490)	(7,490)
At 31 March 2018	7,492	85,702	4,604	21,357	119,155

* The issue of shares represents shares allotted to satisfy the 2014 Performance Share Plan award which vested in June and November 2017.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2019

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 112 and in notes 6 and 21 to the consolidated financial statements.

Investments

Investments in subsidiaries, joint ventures and associates 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.

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 2018	63,298	464	33	63,795
Additions	—	3	—	3
Disposals	(10)	—	—	(10)
At 31 March 2019	**63,288**	**467**	**33**	**63,788**
Depreciation				
At 1 April 2018	5,429	100	25	5,554
Charge for the year	485	51	2	538
At 31 March 2019	**5,914**	**151**	**27**	**6,092**
Net book value				
At 31 March 2019	**57,374**	**316**	**6**	**57,696**
At 31 March 2018	57,869	364	8	58,241

The Company's freehold and long leasehold land and buildings include those which are occupied and used by some of the Company's subsidiary undertakings. The rental income from these assets in the current year was £600,000 (2018: £600,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2019

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 2019 is disclosed below. All of these had a reporting period ended 31 March 2019, except where indicated.

Name of undertaking	Incorporated in	Class of capital
100% owned by Severfield plc		
Severfield (UK) Limited	England and Wales	Ordinary
Severfield (NI) Limited(i)	Northern Ireland	Ordinary
Atlas Ward Holdings Limited	England and Wales	Ordinary
Watson Steel Structures Limited	England and Wales	Ordinary
Severfield (Products & Processing) Limited	England and Wales	Ordinary
Severfield Europe B.V.(ii)	Netherlands	Ordinary
Severfield Reeve Properties Limited	England and Wales	Ordinary
Severfield Reeve Projects Limited	England and Wales	Ordinary
Severfield Reeve International Limited	England and Wales	Ordinary
Severfield Mauritius Limited(iii)	Mauritius	Ordinary
100% owned by Atlas Ward Holdings Limited		
Severfield (Design & Build) Limited	England and Wales	Ordinary
100% owned by Severfield Reeve Projects Limited		
Leeds 27 Limited	England and Wales	Ordinary
50% owned by Severfield plc		
Construction Metal Forming Limited (formerly Composite Metal Flooring Limited) *(iv)	England and Wales	Ordinary
50% owned by Severfield Mauritius Limited		
JSW Severfield Structures Limited(v)	India	Ordinary
25% owned by Severfield plc		
Fabsec Limited*(vi)	England and Wales	Ordinary

* Companies with a reporting period ended 31 December 2018.
‡ 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) Gildelaan 11 2e Verdiepin, 4761 BA Zevenbergen
(iii) Felix House, 24 Dr. Joseph Rivière Street, Port Louis, Mauritius
(iv) Millennium House, Severn Link Distribution Centre, Newhouse Farm Industrial Estate, Mathern, Chepstow, NP16 6UN
(v) 401 Grande Palladium, 4th Floor, 175 CST Road, Kalina, Santacrus East, Mumbai, India, 400098
(vi) Unit 561 Avenue E East, Thorp Arch Estate, Wetherby, LS23 7DB

	2019 £000	2018 £000
Investment in subsidiaries	73,610	73,610
Investment in joint ventures	30,483	26,254
	104,093	99,864

3. Investments continued

Investment in subsidiaries

	£000
Cost	
At 1 April 2018 and 31 March 2019	**93,810**
Provision for impairment	
At 1 April 2018 and 31 March 2019	**(20,200)**
Net book value	
At 31 March 2019	**73,610**
At 31 March 2018	73,610

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 invested a further £4,229,000 in the joint venture to fund the expansion of the production facility in Bellary. During the prior year, the Company invested £5,506,000 in JSSL to support the full repayment of the joint venture's term debt of *c.* £11,000,000 in June 2017. The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

The Company did not make any further investments in CMF Limited during the year (2018: £nil).

	£000
Cost	
At 1 April 2018	26,254
Additions	4,229
At 31 March 2019	**30,483**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 March 2019

4. Debtors — amounts falling due within one year

	2019 £000	2018 £000
Other debtors	1,333	1,534
Amounts owed by subsidiary undertakings	56,536	49,919
Corporation tax recoverable	3,180	1,945
	61,049	53,398

5. Creditors — amounts falling due within one year

	2019 £000	2018 £000
Other creditors and accruals	7,020	7,304
Amounts owed to subsidiary undertakings	84,541	83,468
Deferred tax liability (note 6)	4,144	3,774
	95,705	94,546

During the previous year, amounts of £656,000 were waived by subsidiary undertakings prior to those companies being liquidated.

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.

	2019 £000	2018 £000
Deferred tax liabilities	(4,716)	(4,760)
Deferred tax assets	572	986
	(4,144)	(3,774)

Deferred tax — movement for the year

	Excess capital allowances £000	Other temporary differences £000	Total £000
At 1 April 2017	(4,849)	1,000	(3,849)
Current year credit	49	73	122
Credit to equity	—	(87)	(87)
Effect of change in tax rate	40	—	40
At 1 April 2018	(4,760)	986	(3,774)
Current year credit	44	(409)	(365)
Charge to equity	—	(5)	(5)
At 31 March 2019	**(4,716)**	**572**	**(4,144)**

The rate of corporation tax reduced from 20 per cent to 19 per cent with effect from 1 April 2017. A reduction in the corporation tax rate to 17 per cent from 1 April 2020 was substantially enacted on 6 September 2016.

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 2019 these amounted to £nil (2018: £nil).

ADDRESSES AND ADVISERS

Registered office and headquarters

Severfield plc
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Operational businesses

Severfield (UK) Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Severfield (Products & Processing) Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

JSW Severfield Structures Limited
Office No. 302, Naman Centre
3rd Floor, Plot No. C-31
Bandra Kurla Complex
Bharat Nagar, Bandra East
Mumbai 400 051
India

Severfield (Design & Build) Limited
Ward House
Sherburn
Malton
North Yorkshire
YO17 8PZ

Severfield Europe B.V.
Gildelaan 11 2e Verdiepin
4761 BA Zevenbergen
The Netherlands

Construction Metal Forming Limited
(formerly Composite Metal Flooring Limited)
Unit 3
Mamhilad Technology Park
Old Abergavenny Road
Mamhilad
Monmouthshire, NP4 0JJ

Severfield (NI) Limited
Fisher House
Ballinamallard
Enniskillen
Co Fermanagh
BT94 2FY

Advisers

Auditor
KPMG LLP
Chartered Accountants
1 Sovereign Square
Leeds, LS1 4DA

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London, EC2A 2HA

Public Relations
Camarco
107 Cheapside
London
EC2V 6DN

Stockbrokers
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London, EC4V 3BJ

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions, Bridgwater Road
Bristol, BS99 7NP

Bankers
HSBC Bank plc
Maingate
Kingsway North
Team Valley Trading Estate
Gateshead, NE11 0BE

Yorkshire Bank
(part of CYBG plc)
94 Albion Street
Leeds, LS1 6AG

SHAREHOLDER NOTES

Severfield

Severfield plc
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Tel: (01845) 577896
Fax: (01845) 577411

www.severfield.com