



Severfield

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2016

STOCK CODE: SFR

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BUILDING A SOLID
PLATFORM FOR

GROWTH



Severfield

THE STRENGTH

WITHIN ICONIC STRUCTURES





THE STRENGTH WITHIN ICONIC STRUCTURES

SEVERFIELD IS THE UK'S MARKET-LEADING STRUCTURAL STEEL COMPANY, THE HOME OF WORLD-CLASS ENGINEERING AND DESIGN EXCELLENCE. FOR DECADES WE HAVE BEEN SHAPING SKYLINES AND DELIVERING THE MODERN BUILT ENVIRONMENT.

THE LARGEST STRUCTURAL STEEL BUSINESS IN THE UK AND ONE OF THE BIGGEST IN EUROPE, SEVERFIELD OPERATES ACROSS FOUR SITES PROVIDING UNRIVALLED CAPACITY AND CAPABILITY.

WE ARE FOUNDED ON STRONG CORE VALUES, COMMITTED TO OUTSTANDING CUSTOMER SERVICE AND FOCUSED ON GROWTH AT HOME AND ABROAD.

TRANSPORT

LONDON BRIDGE STATION

LOCATION

LONDON BRIDGE, LONDON

CLIENT

NETWORK RAIL

MAIN CONTRACTOR

COSTAIN

ENGINEER

HYDER WSP

ARCHITECT

GRIMSHAW

TONNAGE

4,900

COMPLETION DATE

DECEMBER 2017

The redevelopment of London Bridge Station is part of Network Rail's £6bn Thameslink upgrade programme and is a four year programme. Fifteen platforms are being demolished progressively and rebuilt whilst keeping a significant number of lines open around the works.

The new canopies are highly architectural creating a flowing form along the platform. Due to the tight programme, complex geometry and site constraints, we have developed and manufactured a prefabricated station roof canopy system that includes steel

framed cassette structure, roof cladding and electrical services. We partnered a cladding specialist (Prater) in the development and delivery of the construction methodology. The cassette system enabled the canopy structure to be erected quickly and gave immediate access to following trades.

The series of platform handovers have been successfully completed, the latest being April 2016, and the works will continue through 2017.

STADIA AND LEISURE

ANFIELD STADIUM

LOCATION

ANFIELD, LIVERPOOL

CLIENT

LIVERPOOL FOOTBALL CLUB

MAIN CONTRACTOR

CARILLION

ENGINEER

JACOBS

ARCHITECT

KSS

TONNAGE

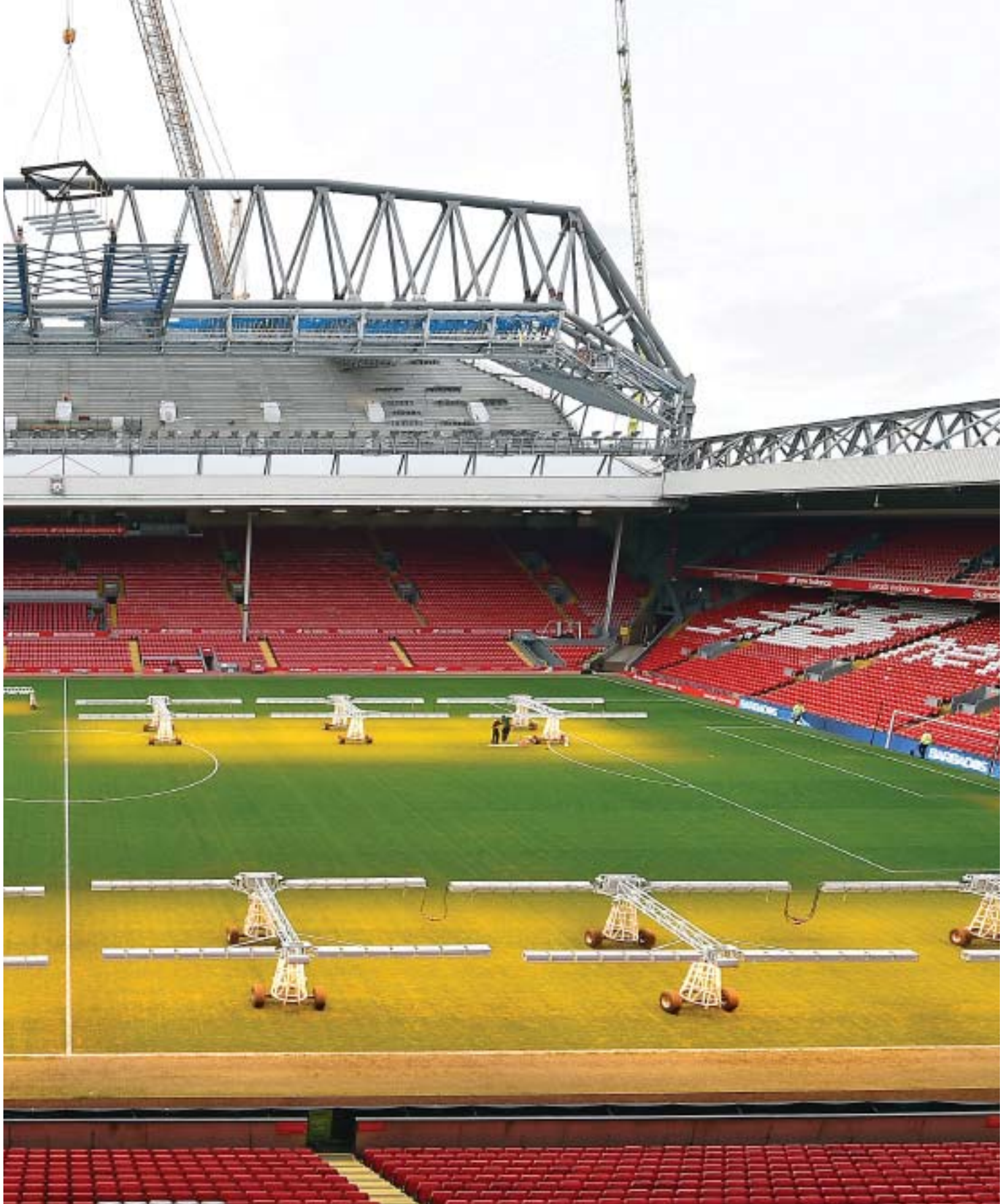
4,800

COMPLETION DATE

JULY 2016



The project involves the extension of the main stand at Anfield stadium making it one of the largest all seater single stands in European football and taking the overall stadium capacity to around 54,000.



Already visible from several points in the city, the expanded main stand extension has been constructed by Severfield behind and above the existing stand, which has remained open throughout the season. The main roof truss, weighing over 650 tonnes and spanning 150 metres, was lifted into position using two huge mobile

cranes. On completion of the terrace, the secondary roof was erected using two crawler cranes in pre-assembled pairs. The new terrace structure provides 26,000 square metres of additional space over seven levels at the ground which will be used for corporate hospitality, retail, and club facilities.

COMMERCIAL OFFICES

ONE ANGEL COURT

LOCATION

BANK, LONDON

CLIENT

STANHOPE

MAIN CONTRACTOR

MACE

ENGINEER

WATERMAN

ARCHITECT

FLETCHER PRIEST

TONNAGE

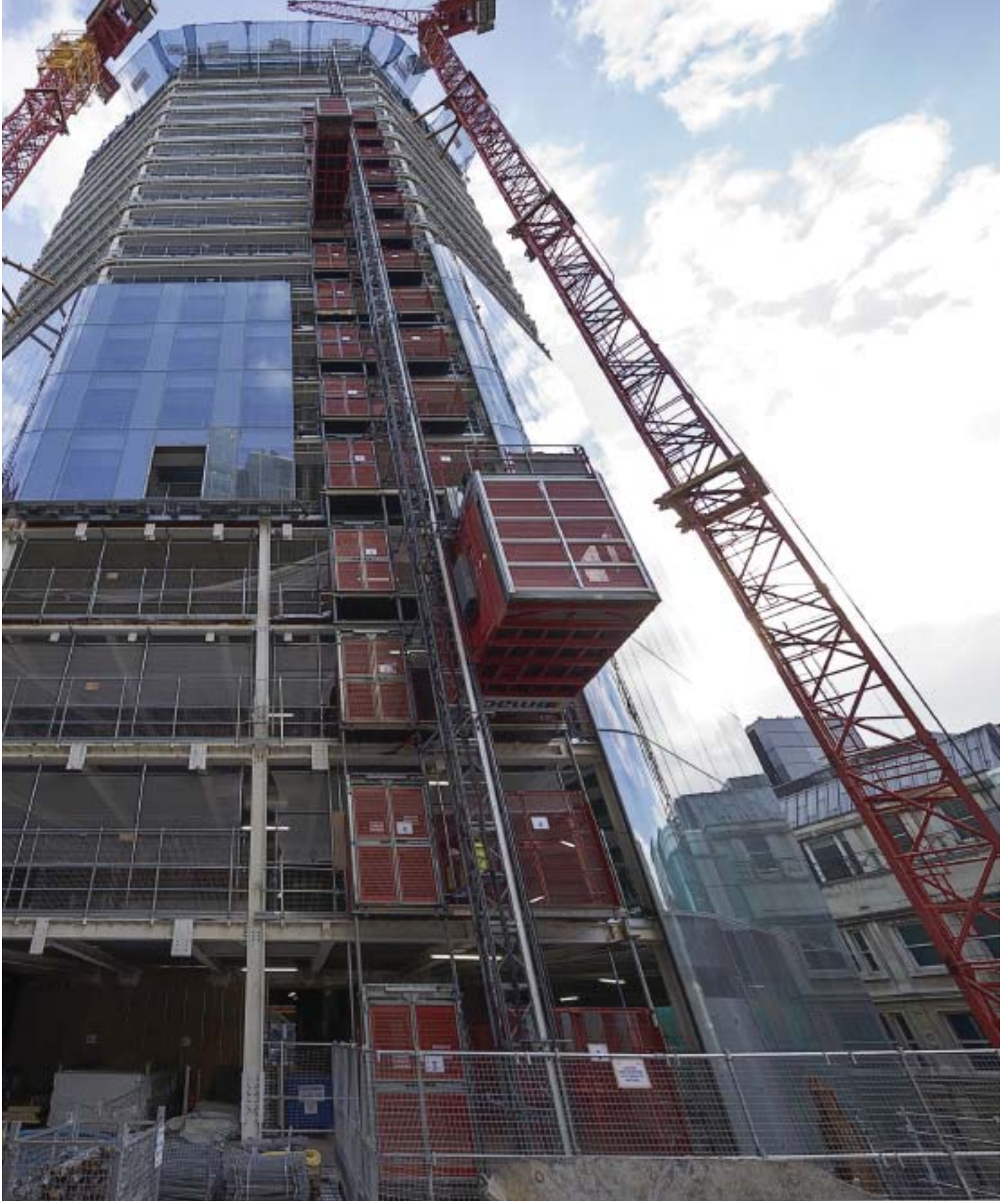
4,400

COMPLETION DATE

SEPTEMBER 2016



Angel Court is a new 300,000 square foot office building and 16,000 square foot restaurant accommodation space located in the centre of London. The project involves replacing all but the core of a 25-storey 1970s tower in the Bank of England conservation area.



The project required approximately 4,400 tonnes of structural steelwork, constructed around existing buildings in central London, to form the new tower structure with north and south podium structures. The steel was unloaded on-site using the Group's 'Seversafe' offload system. Project works included off-site concrete encasement of the steelwork

perimeter elevations to the north and south podium and the production of a modular fabrication and erection scheme for the tower roof steelwork to reduce on-site construction time and facilitate access for following trades at an early date.

The Group also supplied metal decking, 'Seversafe' edge protection and 'Seversafe' moveable perimeter fans for the project.

INDUSTRIAL & DISTRIBUTION

DHL EXTENSION

LOCATION

CASTLE DONNINGTON,
EAST MIDLANDS

CLIENT

DHL

MAIN CONTRACTOR

GSE GROUP

ENGINEER

SEVERFIELD (UK)/RPS

ARCHITECT

BARTON WILMORE/RPS

TONNAGE

3,000

COMPLETION DATE

JUNE 2016



Located at East Midlands Airport, the project has been separated into two main areas, a new warehouse building and the refurbishment of an existing depot.

The new warehouse building consists of 24 bays of portal frames, including mezzanine floor steel with open-type flooring.



In addition, Severfield built a 3-storey office facility that runs the full length of the warehouse, together with a customer service building that incorporated significant architectural features. For the refurbishment, the Group supplied a new mezzanine steel floor and adapted the existing structure to create a new parcel handling facility.

Altogether, the project required the fabrication and delivery of 3,000 tonnes of steelwork. Severfield also provided the design for this project, including connection design.

COMMERCIAL OFFICES

NOVA VICTORIA

LOCATION

VICTORIA, LONDON

CLIENT

LAND SECURITIES

MAIN CONTRACTOR

MACE

ENGINEER

ROBERT BIRD GROUP

ARCHITECT

PLP ARCHITECTS

TONNAGE

7,100

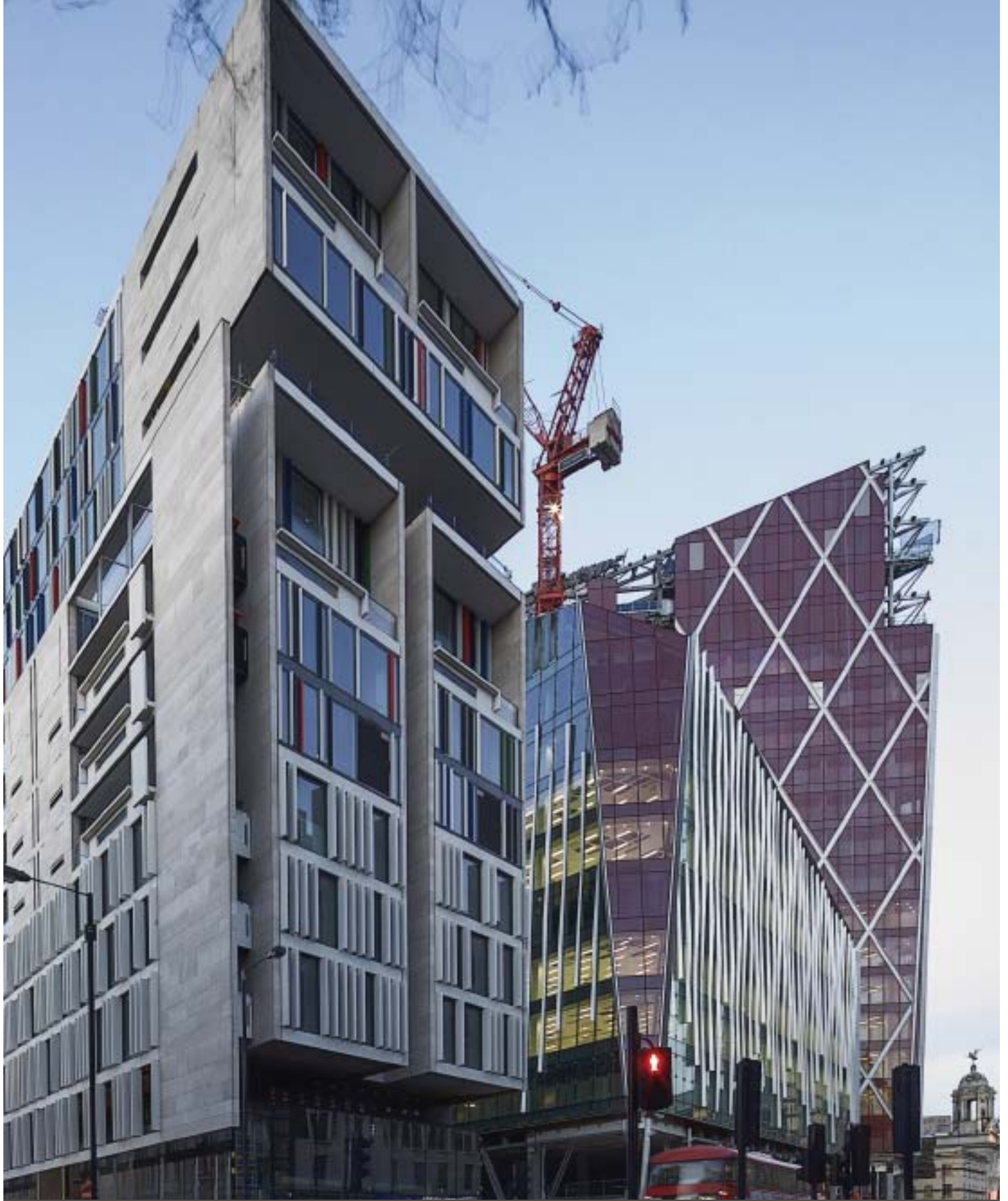
COMPLETION DATE

DECEMBER 2015



This mixed use development is providing around 900,000 square feet of office space, modern apartments, restaurants, bars and retail facilities.

For the project, Severfield provided the connection design, fabrication and construction of just over 7,000 tonnes of structural steel which was unloaded on-site using the Group's 'Seversafe' offload system.



Other services and fixtures included the metal decking, 'Seversafe' edge protection, stairs and open mesh flooring. We also supplied and installed plunge columns for the sub-structure and basement areas.

COMMERCIAL OFFICES

NEW STREET SQUARE

LOCATION

FARRINGDON, LONDON

CLIENT

LAND SECURITIES

MAIN CONTRACTOR

SKANSKA

ENGINEER

WATERMAN

ARCHITECT

ROBERT PARTINGTON AND
PARTNERS

TONNAGE

3,600

COMPLETION DATE

FEBRUARY 2016



Located near Farringdon station in London, One New Street Square is a new commercial development which provides 275,000 square feet of office and ancillary space over ground, upper ground and 14 office floors.



For the project Severfield provided connection design, fabrication and construction of 3,600 tonnes of structural steel. Other services and fixtures included metal decking, shear studs and 'off-site' fire protection. 'Seversafe' edge and fan protection systems were deployed around the whole perimeter of the building. The Group also provided a complex ground floor temporary works support system.



Sev

erfield

WELCOME TO OUR 2015/16 ANNUAL REPORT

SEVERFIELD PLC IS THE LARGEST SPECIALIST STRUCTURAL STEELWORK GROUP IN THE UK, WITH A GROWING PRESENCE IN INDIA AND A REPUTATION FOR PERFORMANCE AND VALUE. 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.



MARKET LEADING UK POSITION

— well positioned to grow across a wide range of construction sectors.



STRONG BALANCE SHEET

— provides operational and financial flexibility.



OPERATIONAL IMPROVEMENT PROGRAMME

— generating steady margin improvement.

FIVE REASONS TO INVEST



UNRIVALLED EXPERIENCE

and capability in design, fabrication and construction of steel structures.



ESTABLISHED Foothold IN THE DEVELOPING INDIAN MARKET

— building value through the joint venture business.

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

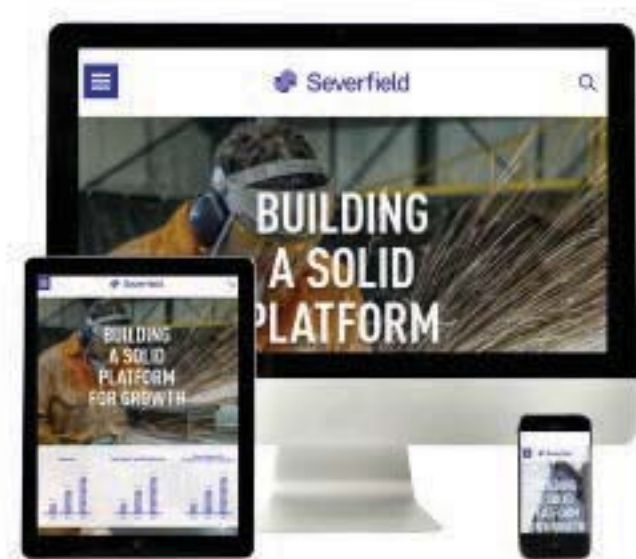
Getting around the report



This icon signposts the reader to other sections in this report



Find out more information on our website www.severfield.com



View this annual report online: severfield.annualreport2016.com

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Our governance

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Our financials — Company

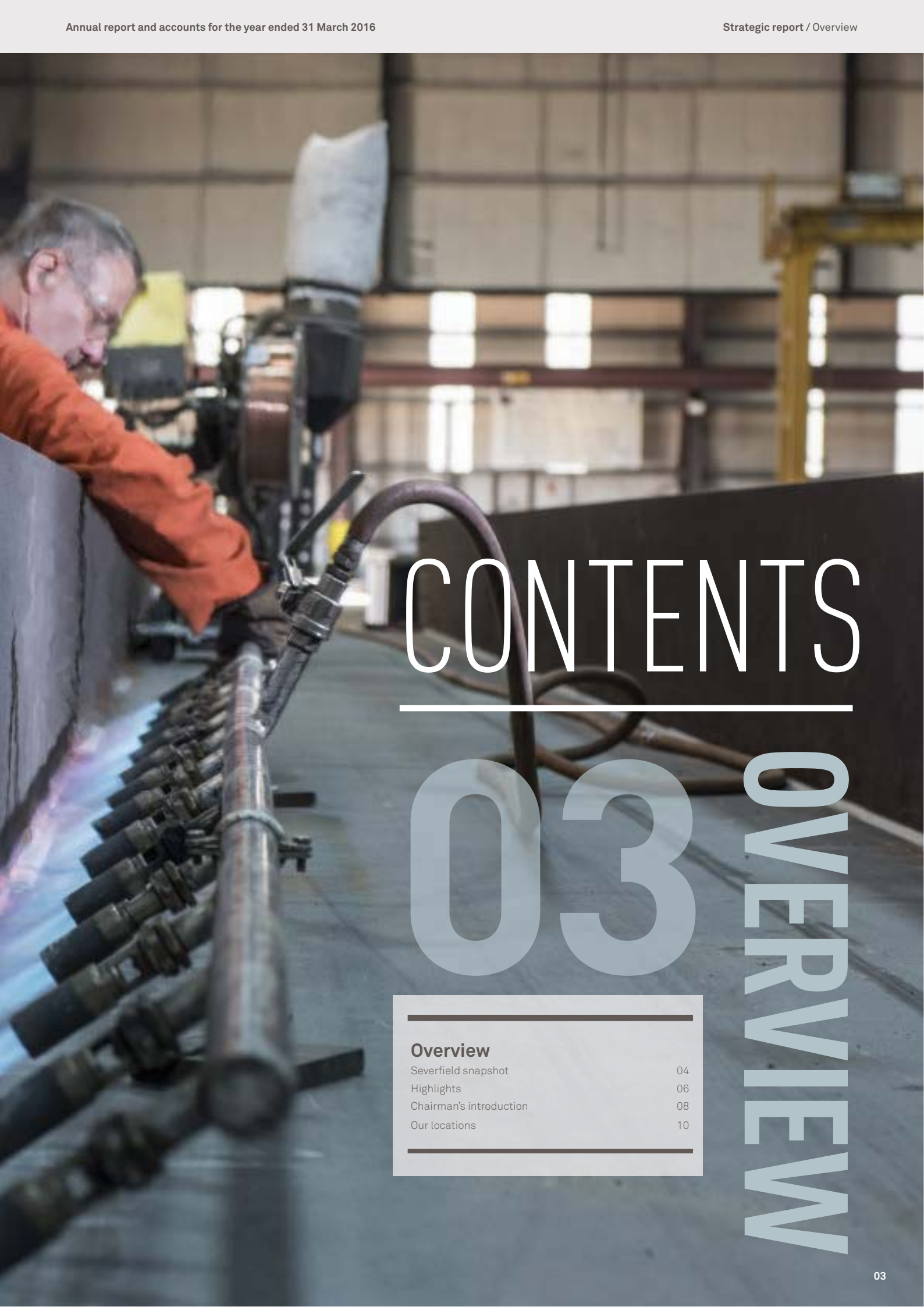
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SEVERFIELD SNAPSHOT

WHAT WE WANT TO BE

OUR VISION

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

WHAT DEFINES US

OUR VALUES

Safety

There is a clear emphasis on safety first. We make no compromise for the fact that profit and loss, deadlines and headlines all come second to making sure everyone goes home safely every day.


Customer focus

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


WHAT WE DO

OUR BUSINESS MODEL


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




Design



Fabricate



Construct

 See more in our **business model** on page 14

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.

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

SAFETY, HEALTH AND ENVIRONMENT

SUSTAINABILITY

PEOPLE

COMMUNITIES

WHERE WE DO IT


OUR GROUP

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

SEVERFIELD (NI)
Enniskillen, Co. Fermanagh

SEVERFIELD (DESIGN & BUILD)
Sherburn, North Yorkshire

JSW SEVERFIELD STRUCTURES
Mumbai, India

 See more in our **locations** on page 10

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 on our **marketplace** on page 18

WHAT WE SET OUT TO ACHIEVE

OUR MISSION

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

Integrity

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

Commitment

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

HOW WE WILL ACHIEVE OUR VISION

OUR STRATEGY

The core of our strategy revolve around and continuing to build a solid platform for continued growth.

The four key elements to our strategy:

[Read more about our strategy on page 2](#)

- GROWTH**
- OPERATIONAL EXCELLENCE**
- CLIENTS**
- INDIA**
- PEOPLE**

HOW WE MEASURE SUCCESS

OUR KPIS

See our KPIs on page 20

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

- Underlying operating profit/margin £13.7m/5.7%
- Underlying basic earnings per share 3.67p
- Revenue growth 19%
- Operating cash conversion 145%
- Return on capital employed ('ROCE') 9.7%
- UK order book £270m
- Accident frequency rate ('AFR') 0.25

HOW WE MANAGE THREATS

OUR RISKS

Read more about risk management on page 40

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:

- Tendering and project execution
- Indian joint venture
- Commercial and market environment
- Health and safety
- Supply chain
- Information technology resilience
- People
- Industrial relations

HOW WE GOVERN OURSELVES

OUR GOVERNANCE

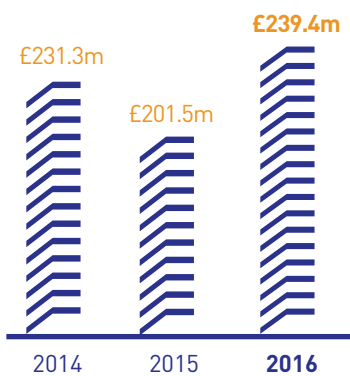
See more on governance on page 63

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, 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.

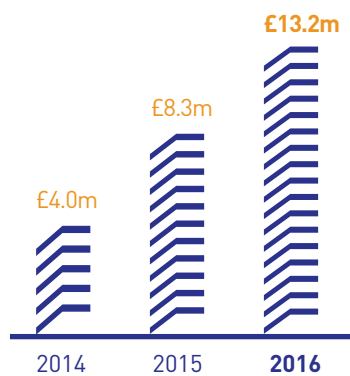
HIGHLIGHTS

FINANCIAL AND OPERATIONAL

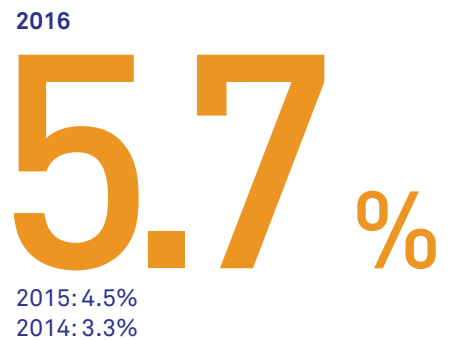
Revenue



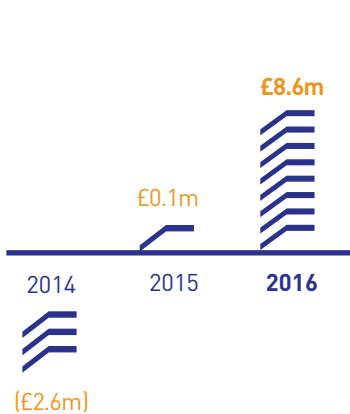
Underlying* profit before tax



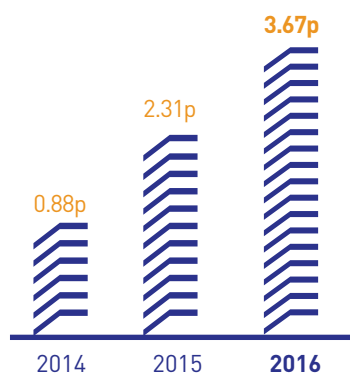
Underlying* operating margin (before JVs and associates)



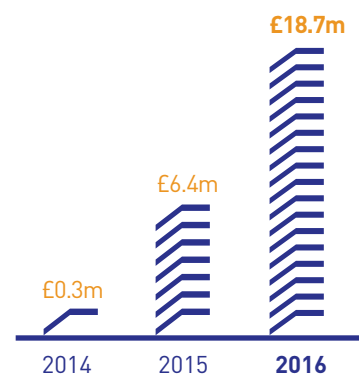
Profit after tax



Underlying* basic earnings per share



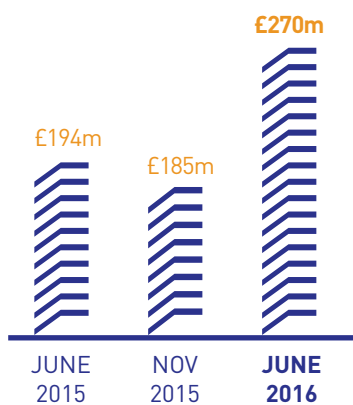
Net funds



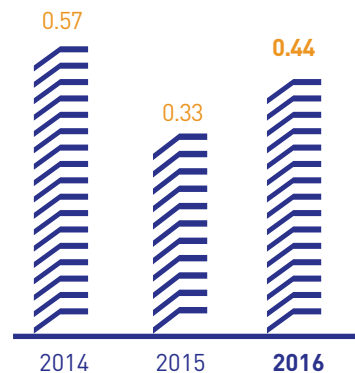
- Revenue up 19 per cent to £239.4m (2015: £201.5m)
- Underlying* profit before tax up 59 per cent to £13.2m (2015: £8.3m)
- Improvement in UK underlying* operating margin (before JVs and associates) year-on-year to 5.7 per cent (2015: 4.5 per cent), in line with stated targets
- Continued focus on tendering and operational processes, reflected in increased margin
- Excellent cash performance with operating cash conversion of 145 per cent (2015: 107 per cent), resulting in year-end net funds of £18.7m (2015: £6.4m)
- Share of losses from Indian joint venture of £0.3m (2015: £0.2m) reflecting stability of the business
- Proposed final dividend of 1.0p per share, resulting in annual dividend of 1.5p per share, reflecting current performance and confidence in future prospects



UK order book



Accident frequency rate (UK only)



- Over 120 projects undertaken during the year in key market sectors:
 - Core construction: office developments, stadia, warehouses and distribution centres; and
 - Core infrastructure: transport
- UK order book of £270m at 1 June 2016 (1 November 2015: £185m), its highest position for over six years
- India order book of £33m at 1 June 2016 (1 November 2015: £35m)
- Successful completion of a 50 per cent investment in Composite Metal Flooring Limited ('CMF'), a manufacturer of metal decking
- Group's UK AFR of 0.44, higher than 0.33 in 2015, but better than 0.57 achieved two years ago, reflecting the benefit of many of the improvements embedded over that period.

* Underlying results are stated before non-underlying items of £3.5m (2015: £8.5m):

- Amortisation of acquired intangible assets – £2.6m (2015: £2.6m)
- Fair value of derivative financial instruments – loss of £0.9m (2015: profit of £0.1m)
- Contract remedial costs – £nil (2015: £6.0m)
- The associated tax impact of the above, together with the impact of a reduction in future corporation tax rates on deferred tax liabilities – £1.2m (2015: £1.8m)

CHAIRMAN'S INTRODUCTION


John Dodds
Chairman



OUR ORDER BOOK IS AT ITS HIGHEST LEVEL FOR OVER SIX YEARS."

2015/16 has been a year of significant progress for the Group. We have seen a return to revenue growth, with a 19 per cent increase to £239.4m. We have achieved a further improvement in underlying operating margin from 4.5 per cent in the prior year to 5.7 per cent, and have continued to strengthen our cash position. The Group's 2015/16 underlying operating margin achieves the strategic target of 5 to 6 per cent established in 2012/13 at the time of the rights issue. This reflects the ongoing benefits of the Group's operational improvement programme, which has impacted all aspects of our tendering and execution processes. Importantly, we are continuing to win new business across our core markets and are encouraged by our strong UK order book of £270m. This is the highest order book level for over six years providing good visibility for future growth.

Underlying profit before tax increased by 59 per cent to £13.2m from £8.3m in the previous year, the result of both a strong performance in the UK and a stable year-on-year performance from our Indian joint venture.

 Read the **operating review** on page 30

The financial position of the Group remains very strong. Year-end net funds were £18.7m, an increase of £12.3m over 2014/15, a result of our excellent recent record of converting profits into cash (operating cash conversion was 145 per cent). This underlying cash generation has enabled further capital and strategic investment in 2015/16, in line with our objectives.

Dividends


The board is proposing a final dividend of 1.0p per share (2015: 0.5p per share), taking the full-year dividend to 1.5p per share (2015: 0.5p per share). This reflects the board's continued commitment to a progressive dividend policy, the improved results for the year and our confidence in the Group's future growth and cash generation prospects. We have refined our dividend policy to establish clear priorities for the use of capital which will provide additional clarity for the Group's stakeholders.

 Read the **financial review** on page 36

People

Our employees continue to make a significant contribution to the success of the business. On behalf of the board, I would like to thank them for their hard work and commitment. We recognise that the continued investment in our people is critical for future success. Accordingly, we have introduced initiatives which focus on talent management, staff and leadership development, and training to ensure that we develop and retain our existing employees and attract the right talent as the business grows.

The health and safety for our people remains a priority for the board. The Group's AFR for the year, which includes our Indian joint venture, was 0.25. This includes an AFR of 0.44 for our UK operations which, whilst not as good as the 0.33 achieved in 2014/15, is better than the score of 0.57 achieved two years ago. New initiatives have already been implemented with more planned for 2016/17. Our Group-wide behavioural safety programme is aimed at achieving a significant and lasting benefit on the safety culture of the Group.

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

2015/16 HAS BEEN ANOTHER YEAR OF GOOD PROGRESS AGAINST OUR STRATEGIC PRIORITIES. WE HAVE RETURNED TO REVENUE GROWTH, INCREASED OUR UNDERLYING PRE-TAX PROFITS BY ALMOST 60 PER CENT AND CONTINUED TO INVEST IN THE BUSINESS, THEREBY ESTABLISHING A FIRM PLATFORM FOR FURTHER PROGRESS IN 2016/17.

£13.2m

2015: £8.3m

Underlying profit before tax

£270m

November 2015: £185m

Order book

145%


2015: 107%

Operating cash conversion

Strategy

We have made good progress against our strategic priorities during the year. We have seen a return to revenue growth, continued margin improvement and further investment in our facilities and people. Following the achievement of our 2015/16 operating margin target, we have now set a new target which is to double our underlying profit before tax over the next four years.

During the year we strengthened our supply chain by taking a 50 per cent investment in Composite Metal Flooring Limited ('CMF'), a manufacturer of metal decking. Following this investment, all of our metal decking requirements are supplied by CMF. After the recruitment in 2014/15 of the legacy Mabey Bridge infrastructure team, we have continued to develop our bridge business, further improving our capability in the growing bridge and infrastructure markets.

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

Governance

The board remains committed to the highest standards of corporate governance. During the year, the board and audit committee were involved in continuing consideration of, and work related to, risk appetite, the monitoring and disclosure of risk and the new viability statement following the revisions in 2014 to the UK Corporate Governance Code.

 Read our **corporate governance report** on page 63

Outlook

We have continued to make excellent progress on the delivery of our strategic objectives during the year. The Group's order book is currently at its highest level for over six years, our operating cash flow is strong and we are achieving continued success from our operational improvement programme. All of this positions us well to make further progress in 2016/17.

John Dodds

Non-executive chairman
15 June 2016

OUR LOCATIONS

THE GROUP OPERATES ACROSS FOUR SITES PROVIDING UNRIVALLED CAPACITY AND CAPABILITY. WE ALSO HAVE AN OPERATION IN INDIA, WHICH FORMS PART OF OUR INTERNATIONAL GROWTH PLANS. WE CAN FACILITATE THE PRODUCTION OF A WIDE RANGE OF STEELWORK PACKAGES, FROM PROJECTS REQUIRING ADDED VALUE ENGINEERING CONTENT TO BASIC STRUCTURAL WORK.

Severfield (NI) Limited

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

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

Capacity:

25,000
tonnes per year

Number of employees:

c.300

Severfield (UK) Limited

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

Capacity:

75,000
tonnes per year

Number of employees:

c.450

Dalton, North Yorkshire

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

Capacity:


25,000
tonnes per year

Number of employees:

c.300

Lostock, Lancashire

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

 See more on our performance in the **operating review** on page 30



Severfield (Design & Build) Limited

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

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

Capacity:

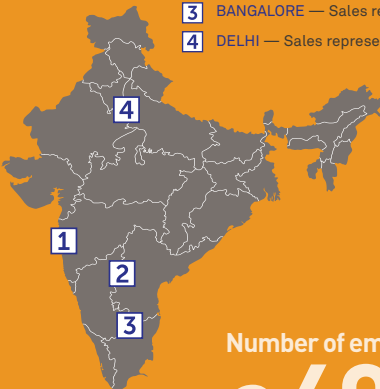
25,000
tonnes per year

Number of employees:

c.250

JSW Severfield Structures Limited

- 1** MUMBAI — Head office
- 2** BELLARY — Production plant
- 3** BANGALORE — Sales representation
- 4** DELHI — Sales representation



Capacity:
60,000
tonnes per year

Number of employees:
c.600

The company, a joint venture with JSW Steel (India's largest steel producer), which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the growing Indian market. Successes to date include prestigious projects for companies such as Reliance Industries, ITC, NetApp, Siemens, Doosan, L&T, Indiabulls, Prestige, P&G, Michelin and OPG Power.

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

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



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Strategic report

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OUR BUSINESS MODEL

OUR CUSTOMERS

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



WHY THEY WORK WITH US

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



OUR SERVICES

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



Design



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

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

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



Fabricate



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

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

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



RESOURCES

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

PARTNERS

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

SEVERFIELD PLC IS THE UK'S MARKET-LEADING STRUCTURAL STEEL GROUP, SERVING THE CONSTRUCTION AND INFRASTRUCTURE MARKETS.



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.



Read more on **how sustainability supports our business model** on page 16



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.



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 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.



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.



See more on **how sustainability supports our business model** on page 16

HOW SUSTAINABILITY SUPPORTS OUR BUSINESS MODEL

SUSTAINABILITY UNDERPINS OUR MODEL, FROM ENSURING THE HEALTH AND SAFETY OF OUR EMPLOYEES, CLIENTS, SUPPLIERS AND SUBCONTRACTORS, TO MINIMISING OUR ENVIRONMENTAL IMPACT.



Health and safety

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

The values below support our health and safety policy and establish the areas that are essential to achieving our main goal, namely to ensure that all employees can enjoy a safe working environment, with no exceptions.

Leadership — people at all levels have responsibility for their own health and safety and should set an example for others. Our management is accountable for health and safety and will demonstrate leadership through personal example.

Hazards, risks and control measures — we will identify the hazards and risks associated with our business activities and introduce appropriate control measures to challenge them in the changing environment and aim for continuous improvement.

Health and well-being — we will promote and improve the health and well-being of all Group employees.

Incident analysis and prevention — we will ensure work-related accidents and near-misses are reported, investigated and analysed to prevent reoccurrence. The investigations will focus on root cause and recommendations shared across the business.

Safety in design — our designers and construction management teams will focus on the design aspect of the structure in order to construct the structure safely and more efficiently.

Monitoring, audit and review — we will conduct regular internal audits on our management systems in order to achieve our objectives and targets to drive the health and safety culture of our business forward.


 See more on health and safety in **building a sustainable business** on page 42

Sustainability

We are committed to minimising the environmental impact of our business through sustainable practices and continuous improvement of our environmental performance. Significant progress has already been made in areas such as carbon management, transport policy and strategy, renewable energy and the responsible sourcing of materials.

We have achieved the Carbon Trust Standard for reducing CO₂ emissions year-on-year and were the first steel fabrication contractor to gain the BREEAM BES 6001 best practice standard for the responsible sourcing of materials. We have also successfully gained the Gold Membership Standard of the Steel Construction Sustainability Charter. This is a milestone achievement recognising our sustainability policies, community engagement, energy and environmental policies, and wider corporate social responsibility ('CSR') practices.

Our continued investment in technology will ensure the future growth of the business. Our increasing cash resources will enable us to invest wherever required in order to continue driving efficiency and improvements in service, adding value for our customers.

 See more on sustainability in **building a sustainable business** on page 42



Quality and accreditations

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

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

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

Innovation

Innovation plays an important role in winning work, building long-term relationships and creating additional value for our stakeholders. The Group's continued expertise in creating innovative solutions at a project level enables our clients to realise their architectural visions.

FABSEC®, which is utilised in our Dalton facility, is the unrivalled market leader in the design, fabrication and supply of long span cellular and bespoke plated beams. It is a joint venture of four major UK companies at the forefront of the UK construction industry, including the Group. FABSEC® beams and FBEAM® software are used on a variety of prestigious construction projects across the UK.

The Group has also developed a unique safety handrail solution (Seversafe®) and a tool-tethering system to help us maintain our high standards of health and safety and to minimise the risk of incidents on our sites.



See more on **our strategy** on page 22

MARKETPLACE

THE GROUP'S STRATEGIC FOCUS IS TO INCREASE ITS UK MARKET SHARE FROM CONSTRUCTION ACTIVITIES, TO ENTER NEW MARKET SECTORS AND TO WIDEN OUR GEOGRAPHICAL SPREAD INTO EUROPE AND BEYOND.

Group production:

85,000

tonnes

Group potential capacity:

150,000

tonnes

Total UK production of structural steelwork:

937,000

tonnes

Marketplace

The current available capacity for the structural steel industry in the UK, estimated by the British Constructional Steel Association ('BCSA'), is between 1.1 million and 1.3 million tonnes. This compares to UK structural steel production for calendar year 2015 of 937,000 tonnes, which equates to a total value of approximately £1.7 billion.

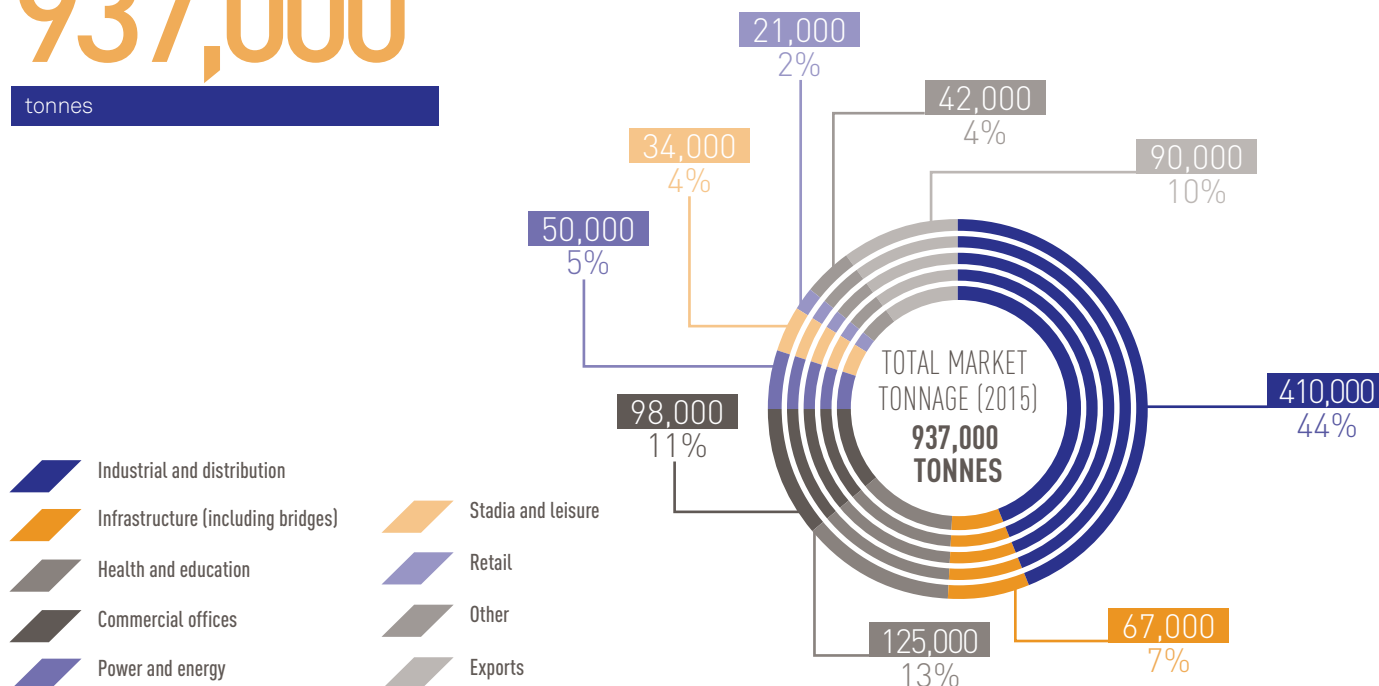
The Group's potential production capability is approximately 150,000 tonnes, which represents 12 per cent to 14 per cent of the current estimated

capacity of the UK market. Its current share of the market is approximately 85,000 tonnes (2014: 75,000 tonnes), resulting in a total UK market share for 2015 of c.9 per cent (2014: c.8 per cent).

The increase in the Group's market share during the year mainly reflects a growing order book and an improved UK market position. The increase in market share has been achieved notwithstanding our continued ability to decline work where the pricing is not considered economic, where terms and conditions are unacceptable to us or where there is insufficient allowance for risk.

Our sectors

The market sectors targeted by the Group, and their estimated size in tonnes during 2015, are shown below:



Source: BCSA

Outlook

Market conditions continued to improve during the year but pricing generally remains competitive. This notwithstanding, there are continuing signs that clients are now looking beyond price and focusing on quality of service and project delivery, which are areas of strength for the Group.

In 2016, the overall construction market, which consists of three sectors (housing, non-residential, and repairs and maintenance), is estimated to grow by 2.0 per cent on the previous year. The Group principally operates across the industrial, commercial and infrastructure markets (within the non-residential sector) which are estimated to have a growth of 3.6 per cent, outpacing the wider market.

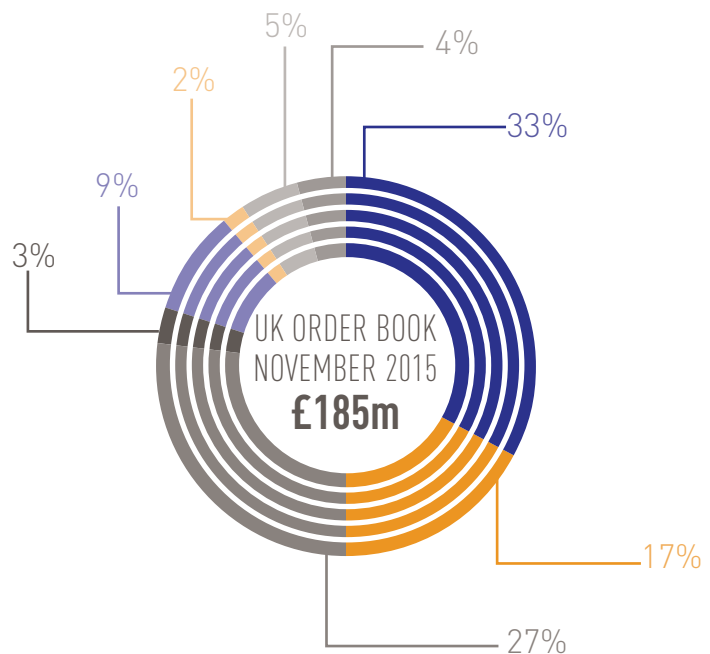
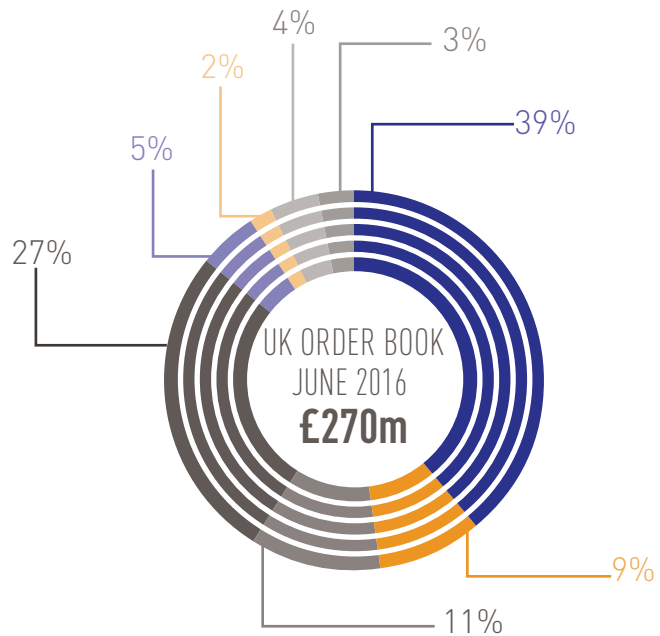
Furthermore, forecasts for the next four years, prepared by the BCSA, show an expected increase in UK structural steel demand, particularly in the Group's key markets.

UK order book

The Group has a very healthy, well-diversified order book of £270m (June 2016) which represents approximately nine months of forward production capacity. The order book has increased significantly during the year and is now at its highest position for over six years, reflecting the improved market conditions and our position as market leader. The contract mix within the order book continues to reflect our focus to diversify our project portfolio across different sectors and geographies.

Pipeline/prospects

The Group continues to monitor the future pipeline of work which is likely to convert to orders in the near term. This provides forward visibility of future orders and helps to facilitate production planning. The Group's pipeline of contract opportunities is encouraging and includes prestigious developments in the commercial offices, industrial and distribution (warehousing), transport and retail sectors.



- Commercial offices
- Power and energy
- Transport (including bridges)
- Data centres and other
- Industrial and distribution
- Retail
- Stadia and leisure
- Health and education

MARKET SECTORS

WE HAVE THE DESIGN SKILLS, ENGINEERING SKILLS AND EXPERIENCE TO HANDLE COMPLEX PROJECTS OVER A DIVERSE RANGE OF MARKET SECTORS, WHETHER FOR WORK, PLAY, TRAVEL OR TO PROVIDE ESSENTIAL INFRASTRUCTURE.

Key:

General market future trends  upward trend  downward trend

Core infrastructure sectors

	<p>TRANSPORT</p> <p>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.</p> <p>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).</p> <p>Group market share (for infrastructure including bridges) 5-10%</p>
	<p>POWER AND ENERGY</p> <p>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.</p> <p>Successes Essex and Milton Keynes waste treatment plants, Peterborough and Covanta (Dublin) Waste to Energy plants, Carrington Power Station, Port of Liverpool Biomass Terminal.</p> <p>Group market share 5-10%</p>
	<p>HEALTH AND EDUCATION</p> <p>We have a long history of providing world-class steel solutions for hospitals, which are increasingly being specified with structural steel frames. Key factors giving us an advantage in this sector include span length, enhanced flexibility, adaptability and speed of construction. We have also worked with many education clients and contractors over the years, each project bringing its own specific requirements and challenges.</p> <p>Successes Francis Crick Institute, Nigeria Syringe Factory, University of Strathclyde, Victoria and Albert Museum (Dundee), Kings College Hospital.</p> <p>Group market share <5%</p>


Core construction sectors






	COMMERCIAL OFFICES	<p>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.</p> <p>Successes The Shard, Leadenhall Tower, 5 Broadgate, Moorgate Exchange, Aldgate Tower, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court.</p>	<p>Group market share 20–30%</p>
	INDUSTRIAL AND DISTRIBUTION	<p>The Group is a trusted partner to the industrial, warehousing and distribution industries, thanks to our strong reputation for engineering excellence and versatility. Unrivalled capacity, the ability to meet diverse and rigorous requirements and other strengths such as design capability, supply chain co-ordination and delivery speeds set us apart from our competitors.</p> <p>Successes Major contracts for BMW, Unilever, Sports Direct, Ocado, ASDA, Sainsbury's, Prologis, Gazeley, Jaguar Land Rover and DHL.</p>	<p>Group market share 10–20%</p>
	STADIA AND LEISURE	<p>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.</p> <p>Successes Paris Philharmonic Hall, First Direct (Leeds) Arena, Olympic Stadium, Arsenal FC (Emirates Stadium), Wimbledon Centre Court (roof), Liverpool FC (redevelopment of Anfield Stadium) and Manchester City FC (south stand redevelopment).</p>	<p>Group market share 40–50%</p>
	RETAIL	<p>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.</p> <p>Successes Bradford's Westfield Shopping Centre, Hereford Old Livestock Market, Birmingham John Lewis, Bracknell's The Lexicon and projects for ASDA, Sainsbury's, Tesco, Morrisons and Costco.</p>	<p>Group market share 10–20%</p>
	DATA CENTRES AND OTHER	<p>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.</p> <p>Successes London Data Centre (Slough), Microsoft (Amsterdam), Telehouse (London) and Amazon (Dublin).</p>	<p>Group market share <5%</p>

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.



 See how we performed against **our strategy** on page 24

	Growth	In the short to medium term, our aim is to capitalise on growth opportunities both in the UK and in overseas markets.
	Operational excellence	Our emphasis is on delivering high quality products and reducing costs by driving excellence through our core business processes.
	Clients	By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.
	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.
	India	We continue to believe that the Indian market presents great opportunities for steel fabrication.



Ian Lawson
Chief executive officer

WE ARE WELL PLACED TO CONTINUE DELIVERING AGAINST OUR NEAR-TERM FINANCIAL TARGETS WHILST CONTINUING TO BUILD FOR THE LONGER TERM.

Q What were the highlights of 2015/16 for you?

A It has been a year of strong progress on a number of fronts. Underlying profit before tax has increased by 59 per cent, our cash flow has been excellent resulting in net funds of nearly £19m and our order book has grown to £270m. We have also achieved the 5 to 6 per cent margin target that we set ourselves three years ago.

Q What are your strategic priorities over the next few years?

A Our target is to double our underlying profit before tax over the next four years. We believe that this is achievable through continuing to implement our strategy in areas such as continued operational improvement and further developing new markets, moving into both new sectors and geographies, where we can bring our skills and can add real value.

Q What is your plan for the Indian joint venture?


A The Indian business has come a long way over the last two years. Our plan is to maintain stability in the business together with continuing the conversion of the market from concrete to steel. We believe that these, in combination, will continue to build long-term value.

Q What's next for Severfield?

A With our current order book and pipeline, and continued stable market environment, we are well placed to continue delivering against our near-term financial targets whilst continuing to build for the longer term. We will continue to do what we do best, by seeking to add value for our clients across a variety of sectors and markets and by continuing to improve on our good progress to date.

Q Looking at your pipeline, what's coming up in terms of sectors?

A Infrastructure is presenting good opportunities as we expect to see growth in this market over the coming years. We are very pleased with the inroads that we have already made into this market, taking advantage of our enhanced bridge capability. We are also seeing a continuing demand for industrial warehousing and commercial offices in the regions rather than purely in London.

 See more from our chief executive officer in the **operating review** on page 30

OUR STRATEGY

In 2015/16, the progress that we have made in delivering our strategy, together with how this strategy has been further developed, is set out below:

	Growth	Links to KPI: 1 2 3 5 6
	In the short to medium term, our aim is to capitalise on growth opportunities both in the UK and in overseas markets.	
Strategic priorities	Achievements in 2015/16	Objectives for 2016/17
Increase UK market share — growing profitable market share in areas where the business already operates.	We have grown Group revenues by 19 per cent and the order book (which currently stands at £270m) by 46 per cent in 2015/16, taking advantage of the Group’s position in the improving UK market environment.	To further grow Group revenues and maintain the quality of the order book. Continue to focus on enhancing our position in existing UK markets where the Group already has specialist expertise (at good margins and with acceptable levels of risk).
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.	We have continued to focus on larger projects within our target markets, playing to our strengths of capability and capacity (including new orders for Goldman Sachs, Tottenham Hotspur FC, BAE Systems and Wimbledon (new roof for number one court)). We have grown our bridge operations in 2015/16 facilitated, in part, by the recruitment of the legacy Mabey Bridge infrastructure team in 2014/15.	Increase focus on new UK markets including exploring regional and mid-market prospects and the development of further cold-formed steel opportunities in CMF. Together with the continued expansion of our bridge capability, we also have a targeted approach with key UK infrastructure project owners to exploit identified growth opportunities (infrastructure and bridge markets).
Building from existing European opportunities — driving more opportunities from European contractors with whom we have strong relationships in the UK.	Our acquisition of a 50 per cent stake in CMF has provided us with a direct interest in the manufacture of metal decking and cold-formed steel products. Following this investment all of the Group’s metal decking requirements will come from CMF, strengthening the supply chain. We have undertaken significant research work to gain greater knowledge of target markets, particularly in Europe and the UK.	Evaluate opportunities within European markets which are showing ‘green shoots’ of improvement including assessment of the most appropriate European delivery model. Review growth opportunities in the rest of the world.

Key performance indicator reference number:

- 1 Underlying operating profit and margin
- 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’)



Operational excellence

Links to KPI: [1](#) [2](#) [4](#) [5](#)

Our emphasis is on delivering high quality products and reducing costs by driving excellence through our core business processes.

Strategic priorities	Achievements in 2015/16	Objectives for 2016/17
<p>Drive operational improvements and efficiencies — the objective of our comprehensive operational improvement programme is to improve the Group's risk assessment, operational and contract management processes.</p>	<p>We have recorded an underlying operating margin of 5.7 per cent, which is towards the top end of our strategic target of a range of 5 to 6 per cent by the end of 2015/16. This reflects our ongoing focus on all aspects of internal operations and the underlying margins on individual orders which have continued to improve over the past financial year.</p> <p>2015/16 operating margins have also benefited from lower levels of volatility in the Group's contract portfolio, particularly as a result of the improvements made to operational processes and effective site execution.</p> <p>These operational improvements were also evidenced in the Group's operating cash flow of £24.8m, which has increased by 118 per cent in 2015/16. Operating cash conversion in 2015/16 was 145 per cent.</p>	<p>Given the strength of the platform from which the Group now operates, our target is to double our underlying profit before tax over the next four years.</p> <p>To continue embedding operational efficiencies through improved contract and commercial management processes and improved flow of steelwork processes through our factories.</p> <p>This improved profitability will continue to generate surplus cash flows and support future dividends, in accordance with the Group's business model.</p>
<p>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.</p>	<p>The Group's improvement programme has included further capital investment in 2015/16 of £5.0m in our factories and construction site plant and equipment, coupled with IT systems improvements. This will benefit the Group both now and in the future.</p>	<p>As part of the Group's capital investment programme, we will continue to invest at levels in excess of depreciation. This will include focused capital expenditure to target market opportunities and to maximise the benefits of our information technology (IT) programme.</p> <p>We will continue to invest in new state-of-the-art manufacturing technology to help drive production efficiencies and to expand the capital equipment base where there is a strong return on investment case.</p> <p>We will continue to upgrade and replace existing equipment where appropriate.</p>

OUR STRATEGY

	Clients Links to KPI: 1 2 3 5 6	
	<p>By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.</p>	
Strategic priorities	Achievements in 2015/16	Objectives for 2016/17
<p>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.</p>	<p>We have continued to develop our relationships with key clients during the year, the benefit of which is evidenced in the improved order book position. Our increased emphasis on client engagement has led to regular contact with key clients on market developments and future business opportunities.</p> <p>We have also focused on strengthening relationships with our wider client base to develop our pipeline of opportunities in both existing and adjacent markets.</p>	<p>Client retention is vital to our organic growth plans and we will continue to ensure that the customer is at the centre of everything we do.</p> <p>We will focus on opportunities to improve client satisfaction, build on existing client relationships and develop new relationships.</p> <p>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.</p>
	India Links to KPI: 2 5	
	<p>We continue to believe that the Indian market presents great opportunities for steel fabrication.</p>	
Strategic priorities	Achievements in 2015/16	Objectives for 2016/17
<p>Sustainability of India – our aim is to ensure that the business develops a sustainable position whilst the market continues its conversion to steel.</p>	<p>The performance of the joint venture has remained steady during the year, despite the challenging Indian market conditions.</p> <p>Our aim for India remains to continue to grow the business and to build value for our shareholders.</p>	<p>We will continue to embed our operational improvement programme and focus on business development opportunities, particularly with key clients in targeted market sectors.</p> <p>We aim to strike the appropriate balance between commercial and industrial projects to ensure that production continues to remain at satisfactory levels whilst we focus on improving the operating margin.</p> <p>We will also continue to evaluate geographically proximate export opportunities to support the existing order book and pipeline.</p>





People


Links to KPI: [1](#) [2](#) [3](#) [4](#) [5](#) [6](#) [7](#)

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

Strategic priorities	Achievements in 2015/16	Objectives for 2016/17
<p>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 whilst maintaining a safe working environment.</p>	<p>We recruited 178 people across the Group and in particular strengthened our bridge engineering capability and increased the number of directly employed steel erectors.</p> <p>We also made the following key appointments:</p> <ul style="list-style-type: none"> • Group business improvement director • Technical director (Severfield UK) • Group learning and development manager • 27 apprentices/trainees <p>We also made a number of promotions during the year (including at director grade) demonstrating our commitment to developing our own talent.</p> <p>We conducted a Group-wide review of emerging talent to ensure consistency and visibility of talent, succession planning and career opportunity.</p> <p>We extended our performance share plan to our wider director population in order to support buy in to the long-term success of the business and assist in management retention.</p> <p>We commenced roll-out of an extensive behavioural safety training and awareness programme.</p> <p>We enhanced our Group-wide performance development review ('PDR') processes and implemented new leadership, management and professional development programmes (see building a sustainable business on page 45 for further details).</p>	<p>We will continue to prioritise investment in our people to ensure a healthy pipeline of talent to achieve our strategic goals.</p> <p>We will build sustainable leadership capability within our next generation of leaders through the Severfield Leadership Programme.</p> <p>We will implement an integrated Group-wide HR information system that will enable us to make better people-related decisions across the business.</p> <p>We will continue our behavioural safety training and awareness programme, the objective of which is to have a significant and lasting benefit on the Group's safety culture.</p> <p>We are committed to a target of zero injuries and we will continue to apply the highest standards in health and safety across all operations in order to further improve the Group's AFR.</p>

 See our **KPIs** on page 28

 Read more about **risk management** on page 48

 Read the **operating review** on page 30

KEY PERFORMANCE INDICATORS

Reference number	KPI	Our performance	Why this is important
1	Underlying operating profit and margin 	<p>2016  £13.7m at 5.7%</p> <p>2015  £9.0m at 4.5%</p> <p>Operating profit has increased by 52%, reflecting increased revenues and an increase in the margin of 1.2%</p>	<p>This is the principal measure used to assess the success of the Group's strategy.</p> <p>We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our investors.</p>
2	Underlying basic earnings per share ('EPS') 	<p>2016  3.67p</p> <p>2015  2.31p</p> <p>EPS growth was 59%</p>	<p>EPS is one of the key metrics in measuring shareholder value and a performance condition of the Group's performance share plan ('PSP').</p> <p>The measure reflects all aspects of the income statement including the performance of India and the management of the Group's tax rate.</p>
3	Revenue growth	<p>2016  £239.4m</p> <p>2015  £201.5m</p> <p>This KPI is new for 2015/16.</p> <p>Revenue has increased by 19% reflecting market growth and better pricing.</p>	<p>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.</p>
4	Operating cash conversion 	<p>2016  145%</p> <p>2015  107%</p> <p>Cash conversion has improved by 38%. Cash conversion exceeds the Group's targets in both 2014/15 and 2015/16.</p>	<p>Cash is critical for providing the financial resources to develop the Group's business and to provide adequate working capital to operate smoothly.</p> <p>This measures how successful we are in converting profit to cash through management of working capital and capital expenditure.</p>
5	Return on capital employed ('ROCE')	<p>2016  9.7%</p> <p>2015  6.1%</p> <p>ROCE has improved by 3.6%.</p>	<p>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.</p> <p>We have an asset-intensive business model and ROCE reflects how productively we deploy those capital resources.</p>
6	Order book	<p>2016  £270m</p> <p>2015  £185m</p> <p>The order book has increased by 46% since November 2015.</p>	<p>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.</p> <p>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.</p>
7	Accident frequency rate ('AFR') 	<p>2016  0.25</p> <p>2015  0.21</p> <p>The AFR remains within the Group's target for 2015/16 of 0.28.</p>	<p>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.</p>



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

OUR GOAL TO DELIVER LONG-TERM SHAREHOLDER VALUE DRIVES OUR STRATEGIC PRIORITIES. WE MEASURE OUR PERFORMANCE THROUGH A BALANCED SET OF KEY PERFORMANCE INDICATORS THAT ARE BOTH FINANCIAL AND NON-FINANCIAL. THEY REFLECT OUR STRATEGIC PRIORITIES OF GROWING AND INVESTING IN THE BUSINESS AND DRIVING ONGOING EFFICIENCIES THAT WILL LEAD TO SUSTAINABLE SHAREHOLDER RETURNS, SUPPORTED BY SAFE AND RESPONSIBLE WORKING PRACTICES.

How we calculate	What we target
<p>Underlying operating profit is defined as operating profit before other items and before the results of JVs and associates (principally the Indian joint venture).</p> <p>Underlying operating margin is calculated as underlying operating profit expressed as a percentage of revenue.</p>	<p>Our target is to double underlying profit before tax over the next four years.</p> <p>Our ongoing aim is to generate steady margin improvement in 2016/17 and beyond.</p>
<p>EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.</p>	<p>Our aim is to maximise sustainable EPS growth.</p>
<p>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.</p>	<p>To grow revenue year-on-year in line with our strategic objectives.</p>
<p>Operating cash conversion is defined as cash flow generated from continuing operations after capital expenditure (before interest and tax) expressed as a percentage of underlying operating profit.</p>	<p>We target a conversion rate of 85% as a base level of achievement, subject to future capital investment made to position the Group for further growth.</p>
<p>ROCE is calculated as underlying operating profit plus share of post-tax results from JVs and associates divided by the average of opening and closing capital employed.</p> <p>Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds.</p>	<p>We aim to deliver ROCE which is in excess of 10 per cent over the whole economic cycle.</p>
<p>Our order book shows the total value of future revenue secured by contractual agreements.</p>	<p>We aim to build a growing order book in line with our strategy.</p>
<p>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.</p>	<p>We are committed to a target of zero injuries in the medium term. The Group's AFR target for 2016/17 is 0.28.</p>

OPERATING REVIEW

OUR INCREASED PROFITABILITY IS AS A RESULT OF OUR FOCUS ON OPERATIONAL IMPROVEMENTS AND EFFICIENCIES OVER THE LAST THREE YEARS.

Group overview

This has been a year of strong progress for the Group on a number of fronts. Underlying profit before tax has increased by 59 per cent to £13.2m (2015: £8.3m) on revenue which has increased by 19 per cent to £239.4m (2015: £201.5m). The performance of the Indian joint venture has remained relatively stable with the Group's share of losses similar to the prior year at £0.3m (2015: £0.2m). Our cash flow has been excellent with operating cash conversion of 145 per cent (2015: 107 per cent) and year-end net funds increasing to £18.7m (2015: £6.4m) whilst funding a further increase in the Group's investment programme.

The underlying operating margin has increased from 4.5 per cent to 5.7 per cent thereby achieving the 5 to 6 per cent target set three years ago at the time of the rights issue, when the Group had just announced a significant loss. During the past three years, the Group has implemented a simpler, more integrated organisational structure, has strengthened management across the whole organisation and has improved its performance demonstrably across a number of areas, including risk management, tendering discipline, operational efficiency and contract execution. All of the actions taken to implement these improvements leave the

Group well placed for the next phase of its growth and development.

Based on the continued progress made by the Group during the year, I am pleased that the board is recommending an increase in the final dividend to 1.0p per share, making a total for the year of 1.5p per share.

UK review

At the time of the rights issue in 2013, an underlying operating margin target of 5 to 6 per cent was set for the current financial year. It is pleasing that this has been achieved with a margin of 5.7 per cent delivered in the year (2015: 4.5 per cent). In conjunction with this improvement, the

THE ORDSALL CHORD, MANCHESTER

The Ordsall Chord project is a major investment by Network Rail to provide a rail link directly from Manchester Victoria to Manchester Piccadilly stations. The Group is providing 3,400 of structural steelwork for the project.

In order to connect the station there are a series of obstacles that require seven rail bridges. The project also includes an architectural footbridge over the river Irwell.

The main structure is the rail bridge over the river Irwell and this is a complex arch bridge which has been blended into the adjacent structure via architectural S shape.



Group has returned to revenue growth, with £239.4m being achieved in the year, an increase of 19 per cent on the prior year level of £201.5m. As a result of this revenue and margin improvement, underlying operating profit (before the share of results of JVs and associates) has improved by 52 per cent to £13.7m (2015: £9.0m).

This performance provides further evidence of the improvements made to the business over the past three years. This includes a simpler organisational structure focused around three main business units, greater strength and depth in the management structure, and an operational improvement programme which has focused on three broad areas – risk assessment, operational processes and contract management processes.

This programme has resulted in improved tender disciplines and risk assessment, and better management throughout a project's life by improving operational efficiency and our execution of contracts. Whilst the initial target of a 5 to 6 per cent underlying operating margin has now been achieved, the opportunity for further progress in the business can also be seen with greater clarity.

Underpinning this continuing improvement is an increasing focus on the training and development of our people. Our senior management team has now been stable for over 18 months and we are continuing to strengthen the individual functions across the organisation. More effort, time and cash is also being invested

in staff training and development, and leadership development for both existing and future leaders. We have established a relationship with Nottingham Trent University which encompasses work placements, graduate opportunities and collaboration on research and development projects. We believe that all this is an essential part of building the strength and depth required across the organisation to deliver both on our existing improvement initiatives and to support the future strategic development of the business.

There have been some notable changes to our steel supply chain in recent months, impacting two of the main types of steel which we use in the fabrication process. Tata closed their UK steel plate production



THIS HAS BEEN A YEAR OF STRONG PROGRESS ON A NUMBER OF FRONTS.”

Ian Lawson
Chief executive officer

OPERATING REVIEW

facility in December 2015 and there was also some concern over the future of their UK steel sections business. The sections business has now been bought by Greybull Capital, and re-named British Steel, which removes the short-term uncertainty we were facing in respect of sections supply, and we have also managed to secure alternative sources of supply for all our plate requirements. While some of the issues around the UK steel industry have been highly publicised and a source of concern for many, it is important to recognise that only around 40 per cent of steel used in UK construction is produced in the UK, the majority being imported. Nevertheless, I am pleased to report that we have managed the changes which affect us with no disruptive impact on the business.

During the year, work has continued on the replacement of bolts on the Leadenhall building. This work is almost complete with the costs of the remedial works being in line with the £6.0m estimated last year. Whilst a non-underlying charge was recognised for this amount last year, discussions continue with the other parties involved to determine where the liability for the total remedial works costs should rest.

In November, we invested in a 50 per cent share of Composite Metal Flooring

Limited ('CMF'). CMF is a manufacturer of metal decking which is used extensively in construction projects. CMF is an existing supplier to the Group and, following this investment, all of the Group's metal decking requirements will come from CMF. This investment is another step in the implementation of the Group's strategy and will strengthen the Group's supply chain as well as enabling it to extract greater value from its existing activities. CMF also provides the Group with a direct interest in cold rolled steel production which has an additional range of uses in the construction sector which we will be looking to develop.

Order book and market conditions

The order book at 1 June 2016 of £270m is consistent with the level it has been at for the past six months. This is a step up from previous reported levels and is the highest it has been for over six years. Of this total, £211m is for delivery over the next 12 months and £59m for delivery beyond 12 months. With the consensus for modest economic growth over the next few years being mirrored in expected growth in construction markets (particularly in the areas of infrastructure and the private industrial and commercial sectors

where the Group is strong), the Group is well placed to continue its growth and development for the foreseeable future.

The breadth of the Group's capability is evident within the order book with around 80 live contracts spread across the key market sectors of commercial offices, stadia and leisure, transport, industrial and distribution and power and energy. There are a number of themes within the order book development which illustrate the strength and depth of the Group's capability. These include:

- the growth in larger projects, with three over £20m in value
- the development of the commercial office sector outside London, which is encouraging
- the Group's strength in stadia development including the new roof for Wimbledon number one court and the new stadium for Tottenham Hotspur FC
- the continuing strength of the retail and distribution sectors
- the re-emergence of the Republic of Ireland as an active and attractive market
- the development of the transport infrastructure sector

DUBLIN WASTE TO ENERGY FACILITY

This waste to energy plant will be the largest in the Republic of Ireland. Once operational it will incinerate up to 600,000 tonnes of waste per year, generating enough electricity for up to 80,000 homes.

All corners on the building are rounded, while the building also curves and slopes upwards. This created many technical design and construction challenges, including complex steelwork geometry, which required the use of Building Information Modelling ('BIM'). The technology used by both PM Group and Severfield, allowed for a detailed, coordinated fabrication model that did not clash with the extensive process and services models.

Detailed planning went into the erection sequence and logistics due to the confines of the site. Working at height to lift large steel elements into place was another challenge that was overcome as a result of the levels of design and construction coordination between PM Group and Severfield.



The reference to transport infrastructure reflects the encouraging progress we have seen since we took on staff last year from the infrastructure division of Mabey Bridge. Progress here so far is in line with expectations and the pipeline development is very encouraging. The Group's positioning in the transport-related bridge infrastructure market will help smooth the fluctuations in revenue from other market sectors which are more dependent on private sector investment. Overall, the Group's breadth of experience, expertise and capability leaves it well placed to win the right mix of work in a growing economy with a growing construction sector.

Market pricing generally remains competitive and there have been some significant contracts during the year which have been awarded to our competition because we were not prepared to accept the terms and conditions which the clients involved were trying to push down the supply chain. Notwithstanding this, there are continuing signs of clients looking beyond price and focusing on quality of service and delivery as well, which are areas where the Group performs consistently well.

Projects

The Group worked on over 120 projects during the year which included:

Commercial offices:	Nova Victoria, London One Angel Court, London Principal Place, London Various developments at Kings Cross
Stadia and leisure:	Anfield Stadium Etihad Stadium
Transport:	London Bridge Station The Ordsall Chord, Manchester Crossrail Depot, Old Oak Common
Industrial and distribution:	BAE Systems facility, Barrow-in-Furness Nissan paintshop, Sunderland Industrial warehousing for clients such as Amazon, Primark, DHL
Power and energy:	Dublin waste to energy facility



OPERATING REVIEW



WE AIM TO DOUBLE UNDERLYING PROFIT BEFORE TAX OVER THE NEXT FOUR YEARS.”

India

The Indian joint venture has delivered another period of relative stability during the year with the Group's share of losses of £0.3m being a fraction higher than the £0.2m in the prior year. This share of loss continues to be the result of a positive operating margin on the one hand, and the financing costs of the business's heavy debt structure on the other.

The underlying business performed relatively well in what was a more difficult trading environment. There were a number of contract timing delays which resulted in production volume reducing to 36,000 tonnes compared with 48,000 tonnes the previous year. The impact of this was mitigated however by the mix of work, which included some more profitable commercial work than in the previous year. Whilst the overall operating margin of 7 per cent was slightly lower than the 9 per cent achieved in the prior year with much higher volumes, it gives further

assurance that the underlying business is sustainable in a range of different trading environments.

Whilst trading was a little sluggish during the year, the mix of work improved and the pipeline of potential opportunities continued to develop well. This has resulted in an order book at 1 June 2016 of £33m which includes a large commercial order for a hospital complex in the state of Kerala, along with some significant potential commercial projects in the pipeline. This will help drive improved performance in the 2016/17 financial year and also keeps momentum building with the conversion of the wider construction market from concrete to steel. It is the progression of this conversion which will really drive long-term value in the business, value which will become more apparent as the debt levels start to reduce over the next two to three years.



Business investment

Capital investment in the business was £5.0m in the year. This was slightly lower than the £6.6m invested in the prior year but in line with our medium-term investment plan. The investment was spread across all our factories and included further upgrading of production equipment which will help drive efficiencies, expanding our fleet of elevated work platforms for construction sites, general replacement of some older equipment, and a range of health and safety and environmental efficiency related improvements.

Our investment programme will continue in the current year and our increasing cash resources will enable us to invest wherever required in order to continue driving efficiencies and improvements in service, adding value for our customers.

As mentioned above, during the year we invested in a 50 per cent share of CMF. The initial consideration was £4.0m (plus transaction costs of £0.1m), with an additional £0.4m working capital adjustment, and a further £2.5m payable over the next five years subject to certain conditions.

Safety

The Group's AFR for the year, which includes our Indian joint venture, was 0.25. This includes an AFR for our UK operations of 0.44. Whilst this was not as good as the 0.33 achieved in the previous year, it remains ahead of the 0.57 achieved two years ago, which illustrates that many of the improvements made during that period are showing signs of becoming embedded. However, there is more to do and during the year, in addition to continuing with the initiatives started in the previous year (near miss reporting, improved communications, directors' visits), we have introduced a Group-wide behavioural safety programme. This has involved everyone in the business undertaking an intensive training programme on all aspects of workplace behaviour which can impact the safety of the working environment. In addition, further investment has been made across all our facilities where opportunities to improve safety have been identified. We remain committed to achieving a zero accident culture as the safety of all our employees remains the most important

priority for both the executive committee and the board.

Strategy and profit target

We have made good progress towards our strategic objectives in the year with the return to revenue growth, improved profitability, continued margin improvement and strong cash generation, further investment in our facilities and our people, the investment in CMF and another year of stability in the Indian joint venture. We continue to enjoy a large element of repeat business from customers such as Mace, Brookfield, Sir Robert McAlpine and Laing O'Rourke. We have also refocused on a number of existing customers such as BAM, Morgan Sindall, Winvic and McLaren, who provide access to more regional opportunities and this has resulted in a number of high quality orders outside of London. Particularly pleasing are the inroads that we have made into the infrastructure market, with our enhanced bridge capability we have secured work with the infrastructure teams of Costain, Skanska, BAM and Hochtief, working on contracts for Network Rail and Highways England. These relationships will serve us well in the future as we expect to see growth in the infrastructure market over the coming years.

The actions we have taken since setting out the targets in 2013 have allowed us to achieve our three-year underlying operating margin target with a margin of 5.7 per cent.

With the strength of the platform from which the Group now operates and the opportunity for further margin improvement, our target is now to double our underlying profit before tax over the next four years. The business has a much stronger base than three years ago; it has strengthened its capability in infrastructure and bridges, it has new capability in cold rolled steel through its investment in CMF, and the market is expected to continue to grow. These factors, coupled with the continued implementation of the strategy in areas such as further developing new markets (both sectoral and geographic), and continued operational improvement, give us confidence that this profit target is achievable. As the business continues to

develop its strength and depth across a number of market sectors, it will become increasingly less dependent on any one sector and give us a broader platform for growing revenue and earnings. Alongside this, maintaining stability in India whilst continuing the conversion of the market from concrete to steel will continue to build long-term value in our Indian joint venture.

The Group's business model supports strong cash generation, as has been demonstrated by the rebuilding of a good net funds position over the past three years. This cash generation will support future investment in the growth and expansion of the business, whilst maintaining a strong return on capital discipline, along with the progression of the core dividend. It may also support supplementary dividends without diminishing the good net funds position which is being built up, a position which we plan to maintain to help manage the financial risks inherent in a contracting business.

Summary and outlook

The business has performed well this year having increased revenue, profitability and cash generation. It has also achieved the margin target set three years ago. With the current order book and pipeline, and continued stable market environment, the Group is well placed to continue delivering against its near-term financial targets whilst continuing to build for the longer term.

India remains stable and as the market continues to convert from concrete to steel, and as debt is repaid, value will continue to build in that business.

Overall the outlook remains encouragingly positive.

Finally, I would like to thank all of our people once again for their hard work and commitment over the past 12 months and look forward to their continued support as we build a better and even more successful business.

Ian Lawson

Chief executive officer
15 June 2016



Read our **strategy** on page 22



Read our **financial review** on page 36

FINANCIAL REVIEW



Alan Dunsmore
Group finance director



**EXCELLENT CASH GENERATION
RESULTED IN NET FUNDS OF
£18.7M.”**

	2016	2015
Revenue	£239.4m	£201.5m
Underlying* operating profit (before results of JVs and associates)	£13.7m	£9.0m
Underlying* operating margin	5.7%	4.5%
Underlying* profit before tax	£13.2m	£8.3m
Underlying* basic earnings per share	3.67p	2.31p
Operating profit (before results of JVs and associates)	£10.1m	£0.5m
Profit after tax	£8.6m	£0.1m

Trading performance

Revenue for the year of £239.4m represents an increase of £37.9m (19 per cent) compared with the prior year. This is the result of an increase in production volumes reflecting the improving UK market position and the higher order book coming into the financial year. The order book has continued to grow throughout 2015/16, resulting in an order book of £270m at 1 June 2016, its highest position for over six years.

Underlying operating profit (before results of JVs and associates) of £13.7m (2015: £9.0m) represents an increase of £4.7m since the prior year, reflecting an increased underlying operating margin of 5.7 per cent (2015: 4.5 per cent). This margin is in line with our previously stated 5 to 6 per cent target for the 2015/16 financial year and reflects the ongoing benefits of the Group's operational improvement programme which has improved all aspects of

our tendering, execution and contract management processes.

The share of results of JVs and associates was a loss of £0.2m (2015: £0.2m) and net finance costs were £0.2m (2015: £0.4m).

Underlying profit before tax, which is management's primary measure of Group profit, was £13.2m (2015: £8.3m). The statutory profit after tax, reflecting both underlying and non-underlying items, was £8.6m (2015: £0.1m).



Read our **Group financials** on pages 95 to 129



Read our **Company financials** on pages 130 to 137

Share of results of JVs and associates

The Group's share of losses from its Indian joint venture was £0.3m (2015: £0.2m) reflecting another year of relative stability in the business. The share of loss is the result of a positive operating margin (7 per cent) less the finance expense associated with the current debt structure.

Following the investment in a 50 per cent share of Composite Metal Flooring Limited ("CMF") in November 2015, the Group has recorded a profit of £0.1m, which represents its share of CMF's results since the date of the Group's investment.

IN 2015/16, THE GROUP RETURNED TO REVENUE GROWTH AND DELIVERED OPERATING MARGINS IN LINE WITH OUR STRATEGIC TARGETS.

Non-underlying items

Non-underlying items for the year of £3.5m (2015: £8.5m) consist of the following:

- Amortisation of acquired intangible assets – £2.6m (2015: £2.6m)
- Fair value of derivative financial instruments – loss of £0.9m (2015: profit of £0.1m)
- Contract remedial costs – £nil (2015: £6.0m)

Amortisation of acquired intangible assets represents the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007. These relationships will be fully amortised within the next two years.

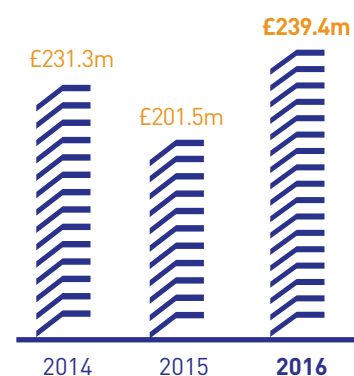
A non-cash loss on derivative financial instruments of £0.9m was recognised in relation to the movement in fair values of foreign exchange contracts, which will reverse when the underlying contract matures in the following year. The fair value of these derivatives is primarily a function of exchange rate fluctuations between sterling and the euro. The loss for the year of £0.9m is partly due to the increased number of foreign exchange contracts taken out by the Group as a result of increased contract activity with the Republic of Ireland, reflecting an improving market position.

The contract remedial costs in the prior year related to the programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. They were treated as non-underlying costs in accordance with the Group's stated policy. This work is now substantially complete and the actual costs of the programme are consistent with the non-underlying charge of £6.0m which was recorded in 2014/15. Notwithstanding this, discussions remain ongoing between the Group and the other parties involved to determine where the ultimate liability for the programme costs should reside. Similar to 2014/15, no account has been taken of possible future cost recoveries from third parties, as these cannot be recognised under IFRS.

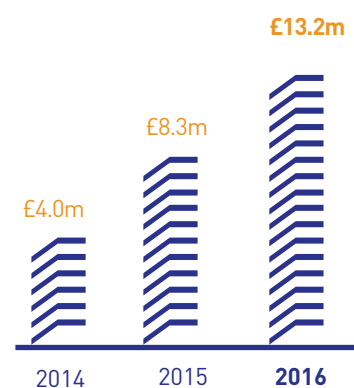
Finance costs

Net finance costs in the year were £0.2m (2015: £0.4m). The reduction since 2014/15 is primarily due to the Group being in a net funds position for almost all of the year. The 2015/16 charge of £0.2m primarily represents non-utilisation fees for the Group's revolving credit facility and the amortisation of capitalised transaction costs associated with the refinancing in 2013/14.

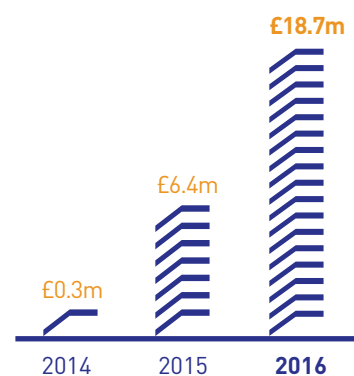
Revenue



Underlying profit before tax*



Net funds



* The basis for stating results on an underlying basis is set out on page 7.

FINANCIAL REVIEW

Taxation

The underlying tax charge of £2.3m (2015: £1.4m) represents an effective tax rate of 17 per cent on the applicable profit (which excludes results from JVs and associates). This is consistent with an effective tax rate of 17 per cent in the prior year, reflecting an unchanged UK statutory corporation tax rate of 20 per cent over the same period. The Group's effective tax rate is lower than the UK statutory rate primarily due to the continued recognition of deferred tax assets on losses which arose in prior periods.

The total tax charge for the year of £1.0m (2015: credit of £0.3m) reflects the underlying tax charge, offset by deferred tax benefits arising from the amortisation of intangible assets in the year, and also the benefit of the future reduction in UK corporation tax to 19 per cent in 2017/18 and 18 per cent in 2020/21 in the deferred tax calculation. These rate changes are categorised as non-underlying and are included in other items.

Earnings per share

Underlying basic earnings per share increased by 59 per cent to 3.67p (2015: 2.31p) based on the underlying profit after tax of £10.9m and the weighted average number of shares in issue of 297.5m (2015: 297.5m). Basic earnings per share, which is based on the statutory profit after tax, was 2.89p (2015: 0.05p), this growth largely reflecting a reduction in charges relating to other items compared to 2014/15, in particular the contract remedial costs for Leadenhall.

Diluted earnings per share, including the effect of the Group's performance share plan, was 2.87p. In 2014/15, there was no difference between basic and diluted earnings per share.

Dividend and capital structure

The Group has a progressive dividend policy which has been further refined by the board during 2015/16. Funding flexibility will continue to be maintained to ensure there are sufficient cash resources to fund the Group's requirements. In this context, the board has established the following clear priorities for the use of cash:

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

Applying this policy in 2015/16, the board is recommending a final dividend of 1.0p per share payable on 16 September 2016 to shareholders on the register at the close of business on 19 August 2016. This dividend is not reflected on the balance sheet at 31 March 2016 as it remains subject to shareholder approval. This, together with the Group's interim dividend of 0.5p per share, will result in a total dividend per share for 2015/16 of 1.5p (2015: 0.5p).

Shareholders' funds

Shareholders' funds at 31 March 2016 were £148.2m (2015: £140.6m). This equates to a total equity value per share at 31 March 2016 of 50p, compared to 47p at the end of 2014/15. The increase is primarily due to the increase in profit after tax for the year and a decrease in the IAS 19 deficit on the Group's defined benefit pension scheme.

Goodwill and intangible assets

Goodwill on the balance sheet is valued at £54.7m (2015: £54.7m) and is subject to an annual impairment review under IFRS. No impairment was required either during the year ended 31 March 2016 or the year ended 31 March 2015.

Other intangible assets on the balance sheet are recorded at £4.5m (2015: £7.1m). This represents the net book value of the remaining intangible assets (customer relationships) identified on the acquisition of Fisher Engineering in 2007, along with certain software assets. Amortisation of £2.8m was charged in the year.

Capital investment

The Group has property, plant and equipment of £77.4m (2015: £76.6m).

Capital expenditure of £5.0m (2015: £6.6m) represents the continuation of the Group's capital investment programme. This included further new equipment for our fabrication lines in Dalton, Lostock and Enniskillen, additional mobile equipment for use on our construction sites and continued investment in a range of health and safety and environmental efficiency related improvements. Depreciation in the year was £3.7m (2015: £3.6m).

As previously stated, the Group's ongoing replenishment levels of capital expenditure are expected to be around £5m per annum.

Joint ventures

No further equity was invested in the Indian joint venture during the year. With the joint venture continuing to operate at close to break-even levels, the need for further equity injections to finance trading losses is likely to be much reduced.

The joint venture business has started to repay its term debt with £2.0m repaid during the year. A further £3.5m is scheduled to be repaid in the 2016/17 financial year and the overall debt/equity structure of the business is being kept under close review.

On 16 November 2015, the Group completed its investment in a 50 per cent share of CMF.

The total consideration for the investment is £7.0m, which consists of an initial payment of £4.0m (plus transaction costs of £0.1m), an additional payment of £0.4m (made in early 2016/17) following agreement of the final working capital position and a further £2.5m which is payable over the next five years subject to certain conditions.

Pensions

The Group has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £14.6m (2015: £16.5m). The decrease in the deficit

is mainly as a result of the increase in the assumption for corporate bond yields (used to set the discount rate) and ongoing deficit contributions of £1m made by the Group during the year. This has been partially offset by lower than expected performance by the scheme's assets.

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

Return on capital employed

The Group adopts return on capital employed ('ROCE') as a KPI to help ensure that its strategy and associated investment decisions recognise the underlying cost of capital of the business. The Group's

ROCE is defined as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2015/16, ROCE was 9.7 per cent (2015: 6.1 per cent) demonstrating good progression towards the Group's target of 10 per cent over the whole economic cycle.



**THE BOARD RECOMMENDS
A FINAL DIVIDEND OF
1.0P PER SHARE."**

FINANCIAL REVIEW

Cash flow

	2016	2015
Operating cash flow (before working capital movements)	£17.9m	£6.6m
Operating cash flow	£24.8m	£11.4m
Operating cash conversion	145%	107%
Net funds	£18.7m	£6.4m

The Group has always placed a high priority on cash generation and the active management of working capital. The Group finished the year with net funds of £18.7m (2015: £6.4m).

Operating cash flow for the year before working capital movements was £17.9m (2015: £6.6m). Net working capital, excluding the utilisation in the year of the 2014/15 provision for Leadenhall remedial costs, decreased by £11.1m during the year and represented approximately 2 per cent of revenue at the year-end.

This is significantly lower than the 5 to 7 per cent range which we have been targeting. Whilst some of this difference can be attributed to a better than normal contract payment profile around the year-end, there has been some underlying improvement in working capital management and we are now targeting a slightly lower range of 4 to 6 per cent of revenue.

In 2015/16, our cash generation KPI shows a conversion of 145 per cent (2015: 107

per cent) of underlying operating profit into operating cash. This continues the Group's excellent recent record of converting profits into cash.

Net investment during the year was £8.4m reflecting the Group's investment in CMF of £4.1m and net capital expenditure of £4.3m (net of disposals of £0.7m).

Bank facilities committed until 2019

The Group has a £25m borrowing facility with HSBC and Yorkshire Bank, with an accordion facility of a further £20m available at the Group's request. These facilities are available until July 2019. There are two key financial covenants, with net debt: EBITDA of <2.5x, and interest cover of >4x. The Group operated well within these covenant limits throughout the year ended 31 March 2016.

Treasury

Group treasury activities are managed and controlled centrally. Risks to assets and potential liabilities to customers,

employees and the public continue to be insured. The Group maintains its low risk financial management policy by insuring all significant trade debtors.

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

The Group continues to have some exposure to exchange rate fluctuations, currently between sterling and the euro. In order to maintain the projected level of profit budgeted on contracts, foreign exchange contracts are taken out to convert into sterling at the expected date of receipt.

Alan Dunsmore

Group finance director
15 June 2016

Artist impression of new stadium for Tottenham Hotspur FC, a new contract win for the Group.



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, which is strengthening, and the pipeline of potential future orders.
- The Group's operational improvement plan which has delivered stronger financial performance and is expected to continue doing so in the 2016/17 financial year and beyond.
- The Group's net funds position and its bank finance facilities which are committed until 2019, including both the level of those facilities and the covenants attached to them.

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

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code (the 'Code'), the directors have assessed the Group's viability over a three-year period ending on 31 March 2019. The starting point in making this assessment was the annual strategic planning process. While this process and associated financial projections cover a period of five years, the first three years of the plan are considered to contain all of the key underlying assumptions that will provide the most appropriate information on which to assess the Group's viability.

This assessment also considered:

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

In making their assessment, the directors took account of the Group's strategy, current strong financial position, recent and planned investments, together with the Group's main committed bank facilities which mature in July 2019. They also assessed the potential financial and operational impact of possible scenarios resulting from the crystallisation of one or more of the principal risks described on pages 52 to 55. In particular, the impact of a reduction in revenue, a reduction in margin, a deterioration in working capital, a period of business interruption and a significant one-off event. The range of scenarios tested was considered in detail by the directors, taking account of the probability of occurrence and the effectiveness of likely mitigation actions.

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

BUILDING A SUSTAINABLE BUSINESS

AS THE UK'S MARKET-LEADING STRUCTURAL STEEL COMPANY, WE KNOW THAT ANY DECISIONS WE MAKE CAN HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT, PEOPLE'S LIVES AND COMMUNITIES.




OUR AIM IS TO EMBED SAFETY, HEALTH AND ENVIRONMENT AS AN UNWAVERING PRINCIPLE."

Our board takes regular account of the significance of social, environmental, ethical and health and safety matters to the Group. A comprehensive risk management and internal control process is in place, including a corporate social responsibility ('CSR') committee.

With our focus on people, we are passionate about providing excellent training and skills development opportunities that benefit individual members of staff and preserve our high working standards. We also support employment in local areas by taking on apprentices across the Group each year, hiring our people locally wherever

possible and providing opportunities for graduates across a number of functions including business support, quantity surveying, design engineering, site management and project management.

We work beyond compliance to consider how we can have a positive impact on communities, minimise risk in our operations and ensure the best health and safety performance standards. This commitment can be seen in our core values and mission statement.

 See **how sustainability supports our business model** on page 16



S.L.A.M.

Stop for a moment.

Look at your work area.

Anticipate what could go wrong.

Manage your work safely.



Do the safe thing.

SAFETY, HEALTH AND ENVIRONMENT

Many of the activities carried out by the Group can be, by their nature, potentially dangerous. It is therefore essential to safeguard the health and safety of our employees and of those who come into contact with Severfield.

The current year accident frequency rate ('AFR') of 0.25, includes an AFR of 0.44 for our UK operations. Whilst this compares unfavourably to the previous year's AFR of 0.33, it remains significantly better than the 0.57 achieved in 2014. This illustrates that many of the improvements made over this two-year period are showing signs of becoming embedded in our operations. In 2015/16, we had 17 RIDDORs compared to 12 RIDDORs in 2014/15, which is reflected in the AFR results. We have analysed underlying trends and are focusing our efforts on addressing the issues to make further real and significant improvements.

In the current year, we continued to build on a number of initiatives started in the previous year including near miss reporting, improved communications and directors' site visits. A number of new initiatives have also been introduced aimed at improving the Group's AFR, the core of which is our Group-wide behavioural safety programme, the objective of which is to have a significant and lasting benefit on the Group's safety culture (see later for further details).

We will continue to concentrate on improving our AFR performance in 2016/17 and we believe that our focus on the following five key areas will deliver the performance we desire.

Behaviour

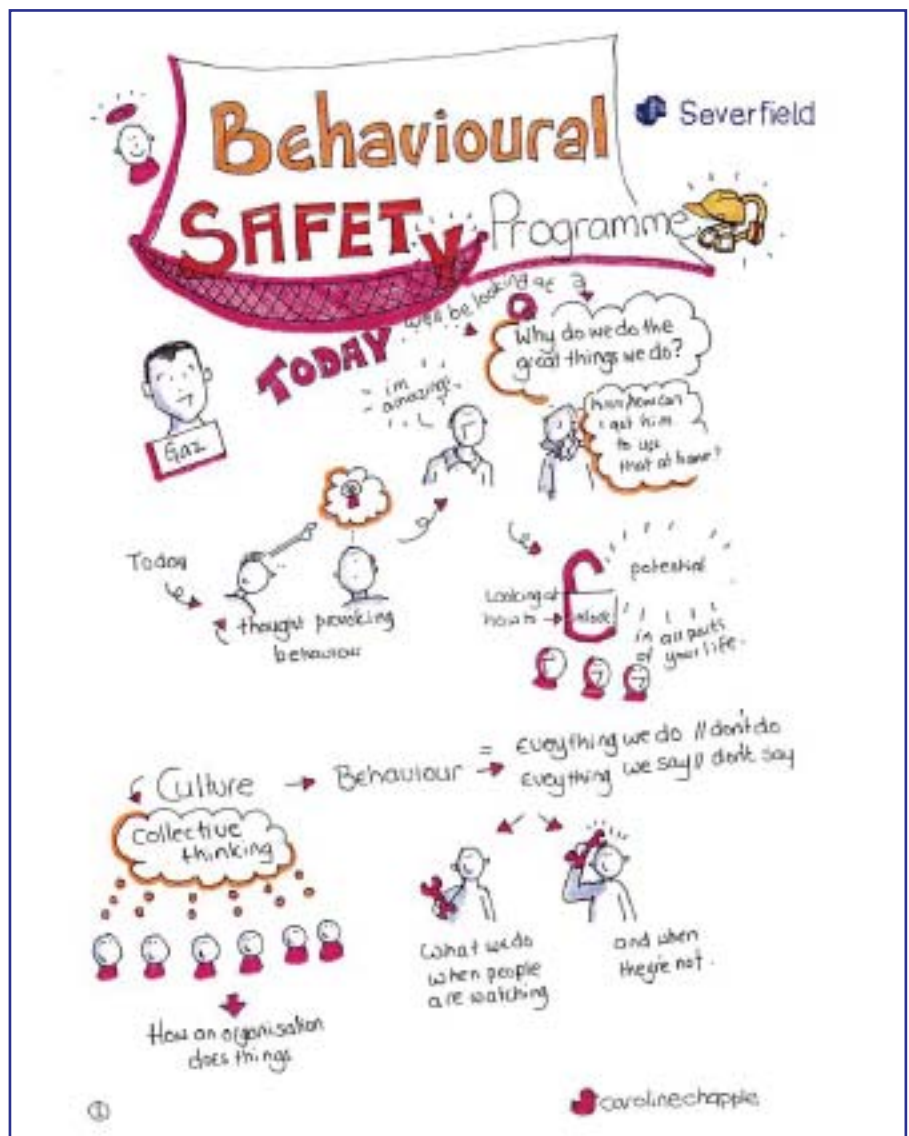
We define behaviour as everything we say and do. This means that any culture change model needs to include an element of understanding of what drives these behaviours and how we generate positive, safe behaviours and therefore habits in the workplace.

Our behavioural safety programme, which was launched this year, has involved everyone in the Group, including the leadership team, undertaking an intensive training programme on all aspects of workplace behaviour which can impact the safety of the working environment. The programme was conducted in association with our partner, Setters. Safety in the workplace is a combination of three

measurable components: the person, their environment, and their behaviour. Only when these three elements are combined can workplace accidents be eliminated.

We have also undertaken a safety culture and attitude survey with more than 800 responses and used this to help formulate the behavioural safety programme.

Once our employees have undertaken a launch day, they can volunteer for further training (front line coaching) on how to apply cognitive behaviours within their work and home environment. To date we have trained over 100 employees as 'front line' coaches.



BUILDING A SUSTAINABLE BUSINESS

Work environment

This year we have continued our focus on improving the lighting levels in the factories to make them a better place to work. This has had a positive impact on efficiency, greenhouse gas emissions and on the working environment in general.

We have improved the conditions of the yards in all of our factories and have undertaken a comprehensive review of welfare facilities for Severfield (UK). We have established a new welfare facility at Dalton which will substantially improve the environment for our employees and are undertaking a similar exercise at Lostock.

We have further embedded our tool tethering policy in 2015/16 to ensure that all tools and materials are tethered on our sites.

During the year, we have continued to develop and implement our Seversafe® edge protection product, our lorry edge protection system and our bespoke fan protection systems. These systems comply with the Work at Height Regulations in terms of meeting the requirements for collective protection measures and our edge protection solution is endorsed by the Edge Protection Federation.

Commitment

The Group continues to maintain an appropriate safety, health and environment ('SHE') budget. Our SHE communication has improved during the year with a number of SHE news bulletins and monthly targeted posters. We also introduced Group-wide construction toolbox talks to ensure all our site-based workforce was kept abreast of relevant issues.

We hold regular Group, factory and site safety leadership team ('SLT') meetings and the Group meeting is attended by the CEO and COO. We use this meeting structure to develop and challenge our policies and to ensure we react in an appropriate manner to incidents and near misses. Our near miss and hazard card reporting has been fully embedded this year with in excess of 500 reported.

Our director site tours were fully implemented in 2015/16, with 179 being undertaken. These gave our people opportunities to discuss local issues and make suggestions for improvement and were very effective in bringing issues to the boardroom.

We have undertaken more than 40 different courses during the year. These include: IOSH Managing Safely, site manager safety training scheme, overhead crane supervision and use, first aid, portable magnet use, confined space and reversing vehicles.

Leadership

We demonstrate leadership by undertaking director tours, charring committees, involving our senior management in incident investigations, being involved in and attending formal and informal training, and communications around SHE and sustainability with our workforce, clients and supply chain.

Engagement

We engage with our stakeholders on a daily basis. Key engagement behaviours are communication, involvement, visibility and support. We are continually striving to communicate better (as discussed above), we have continued to actively involve the directors in SHE and sustainability committees and we use the audit process as a communication tool.

To improve engagement with our employees, clients and supply chain, we regularly attend client meetings and our Group SHE director liaises directly with the SHE teams within our client organisations and with the UK Contractors Group. With respect to our employees and supply chain, they are represented at our SLTs and committees and our visible leadership means that we frequently have workplace-based conversations with our employees and supply chain alike.

We vet and audit our supply chain which provides assurance that our supply chain meets legal requirements and our own standards plus, where applicable, any standards stipulated by our clients.

We have embedded our site audit and inspection system. We undertake all on a web-based format which allows much better analysis of where our key issues lie. This allows us to focus our resources in the correct areas and engage with our workforce, supply chain and clients in a targeted manner.

SUSTAINABILITY

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

Sustainability committee

During the year, we continued to develop the terms of reference for our sustainability committee. We agreed a set of targets and objectives:

- Carbon reduction policy and strategy
- Reduction in carbon intensity by 2020/21
- Waste reduction and diversion of waste from landfill
- Compliance with Energy Savings Opportunity Scheme ('ESOS')
- Quarterly greenhouse gases reporting using shared database and validation of emissions
- Measurement of construction site fuels
- Review of ISO 14001 EMS — operational control, training and audits
- Customer and supply chain engagement
- Staff engagement and internal performance reporting
- Sustainable procurement

We complied with ESOS this year and have an excellent report complete with a set of improvements to be made which will help reduce our carbon footprint.

Environmental performance

The Group maintains its environmental management system which is certified to ISO 14001. Information on our environmental impact is collated monthly and is reported to the board. This includes impacts such as waste, factory energy, VOC emissions and fuels. We met our monthly average VOC concentration limit targets for every factory in 2015/16. 89 per cent of our waste is recovered or recycled.

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

Greenhouse gas ('GHG') emissions reporting

The Group's GHG emissions are reported in accordance with UK Government regulations. We follow the GHG Protocol Corporate Accounting and Reporting Standard methodology, use an operational control approach and utilise the UK Government GHG conversion factors for company reporting. Our reporting boundary includes all material Scope 1 and 2 emission sources within the boundaries of our consolidated financial statements.

We report both our absolute carbon emissions in tonnes carbon dioxide equivalent (tonnes CO₂e), covering all six Kyoto gases, and carbon emissions intensity using a revenue measure (tonnes CO₂e/£million revenue).

We have reported our Scope 2 emissions using the location method only this year (although we do purchase renewable electricity for our factories). We continue to improve the accuracy of our carbon reporting through monthly reporting and also estimate our indirect Scope 3 emissions associated with raw materials and product transportation, waste, water and business travel.

We have again reduced our absolute total Scope 1 and Scope 2 carbon emissions. Since last year they have fallen by 10 per cent, mainly as a result of energy efficiency improvements at our Dalton site, resulting in reduced gas oil and electricity usage. Absolute carbon emissions are now 14 per cent lower than in 2013/14, our baseline reporting year (when we reported total CO₂e emissions of 12,519). Furthermore, our intensity ratio per £m of revenue has decreased by 24% since 2014/15.

For the year ended 31 March 2016, the Group's global GHG emissions were as follows:

Emissions from:	Tonnes of CO ₂ e	
	2016	2015
Scope 1 – combustion of fuel and operation of facilities	4,880	5,529
Scope 2 – electricity, heat, steam and cooling purchased for own use	5,853	6,345
Total CO₂e emissions	10,733	11,874
Intensity measurement:	2016	2015
Absolute tonnes equivalent CO₂e per £m of revenue	45	59

PEOPLE

The quality of our people, their commitment and engagement is what defines us. It is our people who continue to deliver the strategy for the business and will drive future success. That's why our focus in 2015/16 has been on attracting, retaining and developing the best talent in the industry.

In the period, we recruited 178 people, including 27 new apprentices and trainees, across the Group and in particular strengthened our bridge engineering capability and increased the number of directly employed steel erectors. We have provided placements for trainee fabricators, steel erectors and other technical trainees and will continue to invest in apprenticeships during 2016/17 and beyond.

We will continue to prioritise investment in our people to recruit the right people based on ability, potential to learn and alignment with our corporate values.

Learning and development

In 2015/16 we launched a new Group-wide performance development review ('PDR') process. This provides a focus on behaviours in line with our values as well as assessment of performance and identification of development needs. In addition, we invested in learning and development activities and put in place clear priorities and action plans for the Group as a whole.

The main areas of focus for 2015/16 were:

- Graduate programme – this was formalised during the year and we obtained accreditation from the Institution of Civil Engineers ('ICE'). The programme will launch fully in 2016/17.
- Management development – this included the establishment of a modular training programme covering areas such as behavioural and communication preferences, effective communication and assertiveness. This programme will continue in 2016/17.

- Leadership development – we continued to develop our leadership capability and implemented a 360 degree feedback process across our executive committee. We will continue to implement this valuable process at other leadership levels in 2016/17.

During the year, we held a forum for the senior leadership team to re-enforce our SHE leadership priorities and focus on developing our coaching skills. This process will be repeated in 2016/17.

Succession and talent management

The training and development programmes (above) now operate within the context of a Group-wide talent review process, which ensures consistent methodology and visibility of talent. In 2015/16, we conducted a comprehensive review of senior roles within the business and have identified possible medium-term successors in the majority of cases. We also took the opportunity to further assess emerging talent in the Group to identify potential leaders with a view to fast tracking their development.

We are passionate about helping young people take their first step onto the construction career ladder, from school leavers to graduates qualified in disciplines relevant to the construction sector. We believe that the recruitment and training of apprentices is fundamental to business development; another means of ensuring that we have all the desired skill bases available in the future. At 31 March 2016, the Group employed 60 apprentices.

BUILDING A SUSTAINABLE BUSINESS

In 2015/16 we supported a number of universities, colleges and schools including Nottingham Trent University with the provision of guest lecturers and attendance at careers fairs. In the next year, we will continue to derive additional value from our strategic partnerships and explore opportunities for action learning, joint projects and secondments and at the same time publicise the benefits of a career within our industry sector.

Employee engagement and well-being

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

In 2015/16, we reviewed our occupational health provision and highlighted priority areas for promoting the benefits of health to our employees. We provided all employees with the opportunity to access health check appointments. We also reviewed and refreshed our drug and alcohol policy.

The Group regards employee communication as a vital business function. During the year, we continued to focus on improving our internal communications. Our processes now include communication and consultation in a variety of formats across the Group's locations including tool box talks, daily meetings on shop floors, trade union consultation meetings, team briefings, location committees, internally published newsletters and noticeboards.

Group communications include presentations from the chief executive officer at staff roadshows. Results presentations are made to all employees across the Group which improves our employees' understanding of the financial and economic factors affecting its performance.

In 2015/16, we launched a sharesave scheme ('SAYE'), in addition to our existing share incentive plans ('SIPs'), which was taken up by a third of our employees at an average saving of £175 per month. We were delighted at this level of participation and recognise this as a clear sign of our people being engaged with our business.

We plan to conduct an externally facilitated staff engagement survey in 2016/17 to assess our improvement since our first survey in October 2014 and we will compare the results against external benchmarks.

Diversity

At 31 March 2016, the Group workforce consisted of 1,329 employees of whom 97 (7 per cent) were female. Of our senior management team of 93 employees, 7 (8 per cent) were female. The Group's executive committee (see page 60) had one female member and the board of directors (see page 58) had no female representation. We do not currently monitor ethnicity.

In 2015/16, we conducted a significant review of our equal opportunities and family friendly policies. As a result, we

relaunched our policies and enhanced our maternity provisions to support diversity and encourage women to return to us following leave.

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

In the coming year, we will monitor the success of our policies and procedures in encouraging greater diversity across the Group as a whole and in achieving greater diversity at all senior levels.

Reward

We recognise that our approach to reward is critical to our ability to both attract and retain the best people and drive a performance culture. Each of our businesses offers a competitive reward package appropriate to the labour market in which they operate and review salaries annually in line with market rates. Our focus is on cash and variable pay rather than fixed benefits and each division's reward package includes an annual Group profit performance-related bonus which encourages the achievement of our strategic objectives.

Our people are also eligible to participate in a Group defined contribution pension scheme from the first day of their employment with us. Employees also have the option to make their own contributions through salary sacrifice. We continue to facilitate a number of flexible benefits that enable our people to access programmes and savings that would not be available to them on an individual basis without additional cost to the Group. These include cycle to work, childcare voucher and discount schemes.

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

We recognise and reward the loyalty of our people and in 2015/16 we celebrated 25 years' service with five people.



Human rights

Human rights are basic rights for individuals. They form the foundations for freedom, justice and peace. They apply equally and universally in all countries, irrespective of the legal framework.

Respecting human rights in our business operations and business relationships is the foundation of our social responsibility.

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

We have set human rights principles as follows:

- We will create employment environments that promote and respect the rights of individuals;
- We will not participate in the condoning of human rights violations;
- Were we to discover, or be made aware, that we had been associated with human rights violations including any acts of modern day slavery and human trafficking in the supply chain we would take steps to rectify the situation, taking account of the interests of those whose rights are being violated.

We are looking pragmatically at our supply chain processes to give us added confidence that they help us address the requirements of the Modern Slavery Act. We are adopting a risk based approach to this exercise.

COMMUNITIES

We continue to engage with our communities by supporting charitable concerns and local initiatives. During 2015/16 the Group carried out a diverse range of activities and programmes including; attending careers events and school fairs and mentoring young people who have chosen to study STEM subjects. Several employees within the Group are STEM ambassadors. They support teachers in the classroom by inspiring and encouraging young people to enjoy STEM subjects.

We assisted the National Careers Service in Yorkshire and Humber by enabling videography at our Dalton site to produce a film for the LEP York, North Yorkshire and East Riding area. This film, to be shown in schools and colleges, brings the local economy to life and seeks to match young people's employment aspirations and the opportunities available within the area.

In 2015/16, Group employees have worked hard to raise funds for many different charitable organisations, including Oxfam, Macmillan Cancer Support, the Yorkshire Air Ambulance, the British Heart Foundation, Cancer Research UK, St Catherine's Hospice (Scarborough), Bolton Hospice and the Northern Ireland Chest, Heart and Stroke Baby Hearts Appeal.

The Group companies also continue to spread thought leadership to employees, customers, suppliers and potential employees via various initiatives including internal company newsletters, seminars, industry-specific exhibitions, site visits to view projects and events. Our internal company newsletter shares good news

stories regarding charity initiatives on a quarterly basis.

Severfield Foundation

We have recently set up the Severfield Foundation as a registered charitable incorporated organisation. The Foundation will raise funding for, and offer practical assistance to, charitable bodies throughout the UK, mainly through the activities of Severfield employees and companies.

We are encouraging employees to raise money for charity with the incentive of matched funding from the Foundation. We have set fundraising challenges to our Group companies for 2016/17.

Our employees will be at the forefront of the Foundation's activities, contributing to and taking part in events and with their help our vision is to develop the Foundation into a leading and effective charitable trust, which will help and support disadvantaged people and local communities.

Each year we will support a major 'partner' charity and the local charities chosen by each Group company (as decided by the staff in each location). All moneys raised will be split between one of the local charities and the Group's 'partner' charity.

For 2016/17 we have chosen Prostate UK as our 'partner' charity. We intend to help raise much needed funds and awareness of prostate cancer because our workforce is predominantly male and 1 in 8 men in the UK will get prostate cancer at some point in their lives.

The Foundation will be run by its trustees (who are all employees of the Group).



RISK MANAGEMENT

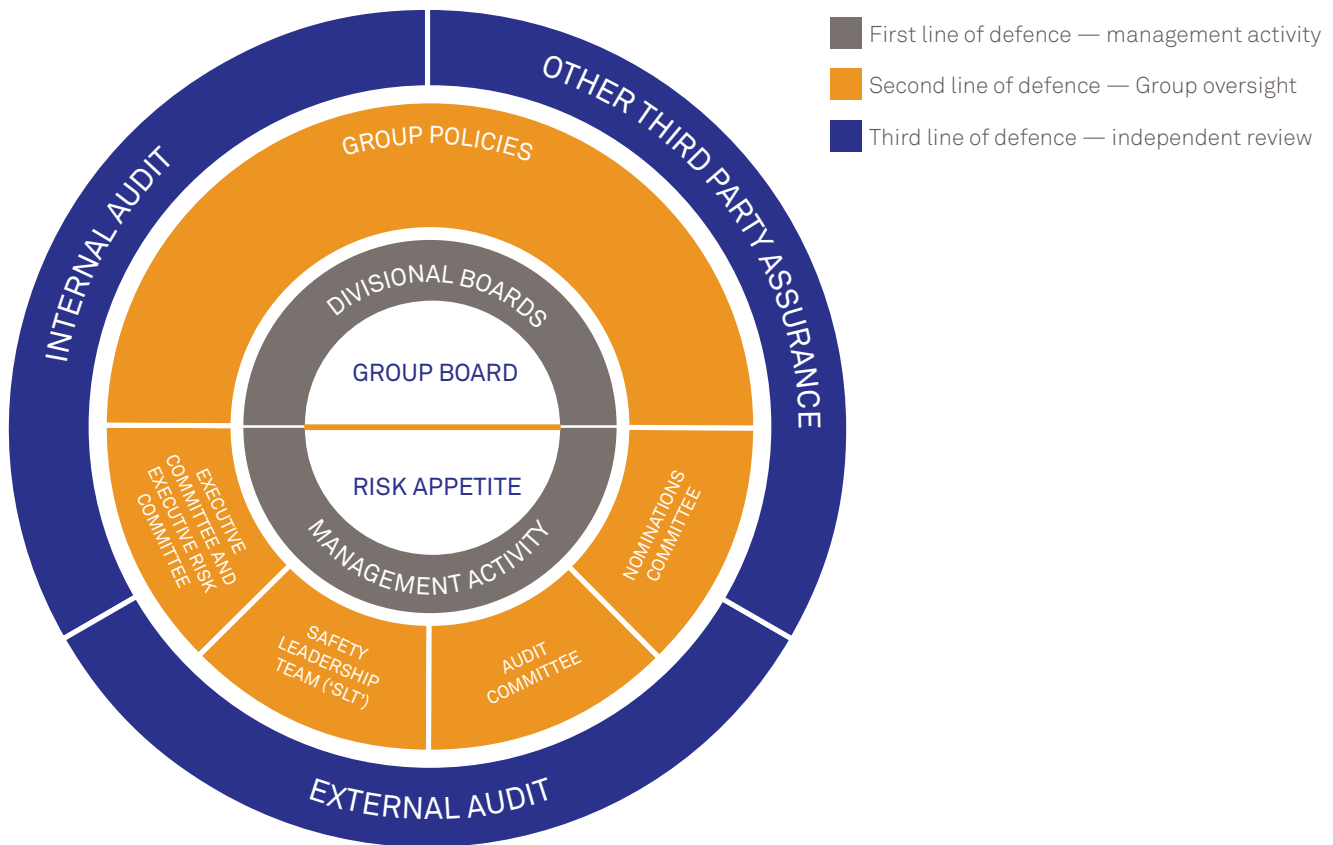
STRONG AND EFFECTIVE RISK MANAGEMENT IS AT THE HEART OF HOW THE DIRECTORS RUN THE BUSINESS AND SUPPORTS THE ACHIEVEMENT OF THE GROUP'S STRATEGIC OBJECTIVES. THE BOARD BELIEVES THAT ONGOING CONSIDERATION OF, AND REGULAR UPDATES TO, THE GROUP'S RISK MANAGEMENT FRAMEWORK ENABLE THE EFFECTIVE BALANCING OF RISK AND REWARD.

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 and this year, in response to changes to FRC guidance, the Group has further enhanced its risk management and internal control processes. A Group assurance map is used to co-ordinate the various assurance providers within the Group and a new compliance framework provides the board with a ready reference tool for monitoring compliance across the Group.

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

- Senior management from all key disciplines and businesses within the Group continue to be involved in the process of risk assessment and monitoring in order to identify and assess Group objectives, key issues and controls. Further reviews are performed to identify and monitor those risks relevant to the Group as a whole. This process encompasses all aspects of risk, including operational, compliance, financial and strategic.
- Identified risk events, their causes and possible consequences are recorded in risk registers. Their likelihood and potential business impact and the control systems that are in place to manage them are analysed and, if required, additional actions are developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing these risks within an agreed timetable.
- The Group establishes its risk appetite through use of delegated authorities so that matters considered higher risk require the approval of senior management or the board. These include, but are not limited to, tender pricing, bid submissions, approval of contract variations and final account settlements, capital requirements, procurement, and certain legal and strategic matters.
- Ongoing risk management and assurance is provided through various monitoring reviews and reporting mechanisms, including the executive risk committee (chaired by Ian Lawson) which convenes on a weekly basis and has the primary responsibility to identify, monitor and control significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from a variety of sources on a regular basis.
- Subsidiary company boards consider and report on risk on a monthly basis as part of the monthly business review process. This process is followed to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.
- On a quarterly basis, the significant risks identified by the Group's businesses are discussed in detail with each management team. In addition, the Group finance director, legal director and IT manager 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.



Three lines of defence

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

A. First line of defence: management activity

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

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

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

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

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

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

RISK MANAGEMENT

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 contract guidelines, the anti-bribery policy, the Competition Law compliance policy, the quality manual, the health and safety policy and the environmental policy). During the year, we also updated our data protection and CCTV policies and established a comprehensive new information security management system, for which we are seeking accreditation under ISO 27001. This will give further assurance as to the Group's resilience to cyber risk.

These policies are supported by statements of compliance from all directors and letters of assurance ('LoA') from the Group's three managing directors. LoAs are now required twice yearly, one at 30 September and one at 31 March (only one LoA was required at the year-end stage in the previous year). In the current year, we have introduced more formality into the process through the use of an internal control questionnaire (ICQ) which is completed by each business unit and which provides a detailed basis for management to satisfy themselves that they are complying with all key control requirements. The responses in these ICQs are subject to ongoing independent review by PwC, the Group's internal auditor.

The following main committees provide oversight of management activities:

The executive committee, risk committee and safety leadership team

— these committees are responsible for the identification, reporting and ongoing management of risks and for the stewardship of the Group's risk management approach.

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

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

C. Third line of defence: independent review

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

Internal auditor — the audit committee annually reviews and approves the PwC internal audit programme for the year. The committee reviews progress against the plan at each of its meetings

considering the adequacy of audit resource, the results of audit findings and any changes in business circumstances which may require additional audits.

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

Annual review of effectiveness

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

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

Risk appetite

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

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

Changes to principal risks since last year

The following items, which were highlighted as principal risks in the previous year, are not classified as such in the current year annual report:

- **Inadequate supply chain management** (the poor performance of a supply chain partner exposing the Group to liability for defective workmanship, materials or design). This has been downgraded to reflect improvements to standard Group procurement policies and conditions, accreditation procedures and management teams.
- **Inadequate business continuity planning** (interruptions to the Group's fabrication facilities having greater consequences than should be the case). This has been downgraded following the implementation of a number of improvements following a targeted strategic review performed by internal audit (then KPMG).

The principal risk described in the previous year's annual report as 'IT failure or disruption' has been renamed as 'IT resilience' to reflect both the improvements made to disaster recovery planning and the greater perceived risk of cyber-attack in the current operating environment.








RISK MANAGEMENT

2015/16 principal risks

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. 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.

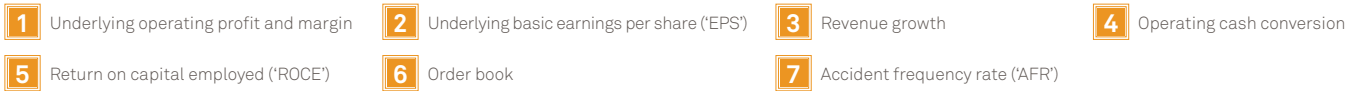
Our principal risks are set out below. The scoring of each risk as high, medium or low is determined by taking into account the potential impact and likelihood associated with the crystallisation of each risk. Assessment of impact takes into account both potential and reputational issues.

Tendering and project execution	Link to strategy: 	Link to KPIs: 	High Stable 
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. As contracts progress, there are likely to be changes to the work packages being undertaken which could result in the Group not being appropriately reimbursed for the cost of these variations as a result of poor commercial controls, disagreements or disputes. Execution failure on a high-profile contract could result in reputational damage. Impact Poor contract tendering and execution could result in adverse business performance, price and margin pressure and missed growth targets. The Group may need to resort to legal action to resolve disputes, which can be costly and may damage client relationships.			
Mitigation <ul style="list-style-type: none"> Continued strengthening of senior management team to improve process and discipline around contract risk assessment, engagement and 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. Work performed under minimum standard terms (to mitigate onerous contract terms) where possible. Established system of monthly reviews to measure and report contract progress and estimated outturns, including contract variations. Use of Group authorisation policy to ensure appropriate contract tendering and acceptance. 			
Commercial and market environment	Link to strategy: 	Link to KPIs: 	Medium Stable 
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. Lower than anticipated demand could result in increased competition, tighter margins and the transfer of commercial, technical and financial risk down the supply chain, through more demanding contract terms and longer payment cycles. Impact A significant fall in construction activity could adversely impact revenues, profits, ability to recover overheads and cash generation.			
Mitigation <ul style="list-style-type: none"> Regular reviews of market trends performed (as part of the Group’s annual strategic planning process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively. Regular monitoring and reporting of financial performance, orders secured, hot prospects and pipeline of opportunities. Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients. Close engagement with both customers and suppliers and monitoring of payment cycles. Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts. Continuing use of credit insurance to minimise impact of customer failure. Strong balance sheet (the Group is cash-positive) supports the business through fluctuations in the economic conditions for the sector. 			

Key to strategic icons:


















Key performance indicator reference number:

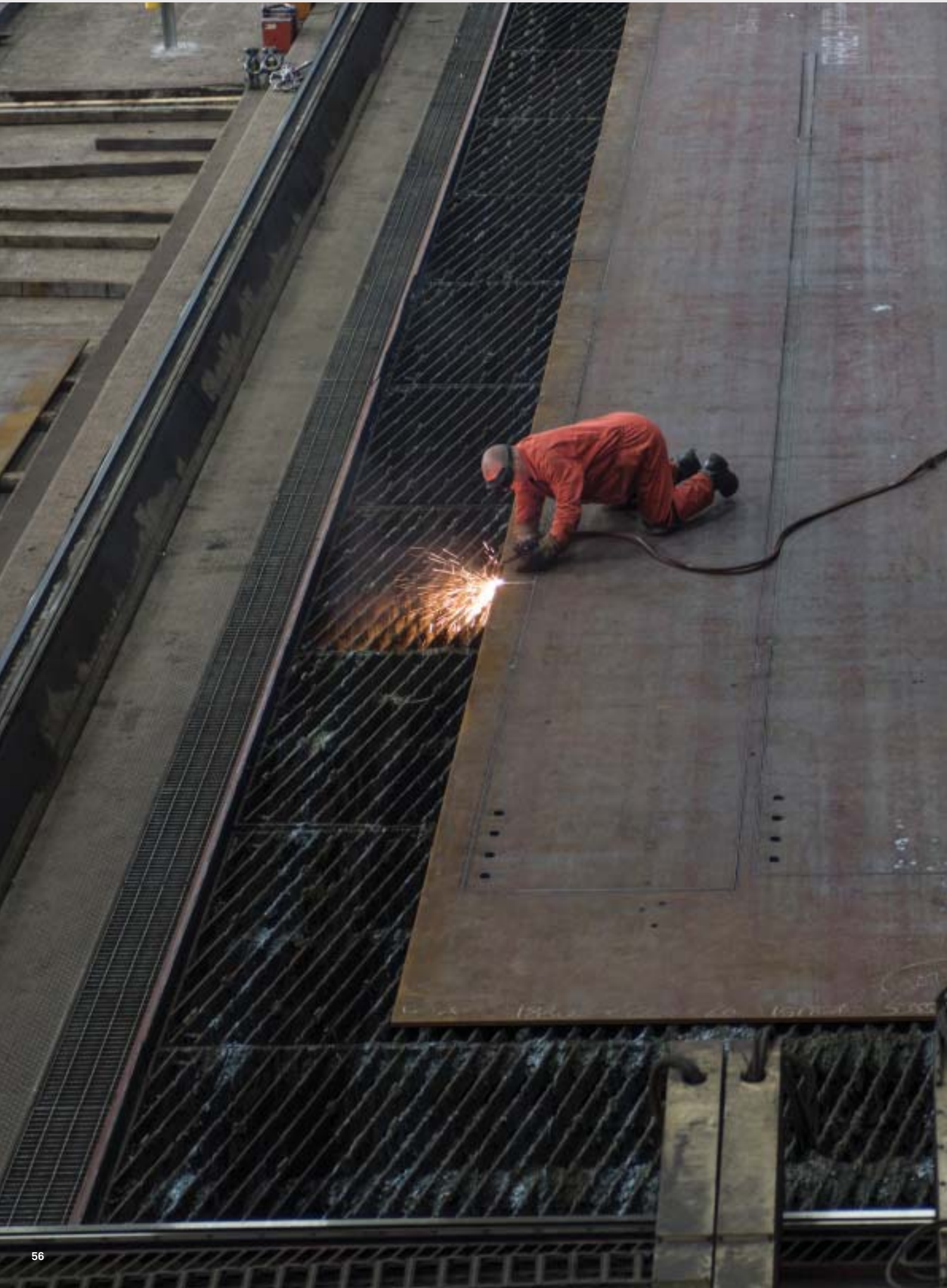


<p>Health and safety</p>	<p>Link to strategy:</p>	<p>Link to KPIs:</p>	<p>Medium</p> <p>Stable </p>
<p>Description</p> <p>The Group works on significant, complex and potentially hazardous projects which require continuous monitoring and management of health and safety risks. Ineffective management of health and safety issues could lead to a serious injury or death or damage to property or equipment.</p> <p>Impact</p> <p>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.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> Established safety systems, site visits, monitoring and reporting, and detailed health and safety policies and procedures, are in place across the Group. Thorough and regular employee training programmes, including new behavioural safety training initiatives, under the leadership of the Group SHE director. 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. Priority board review of ongoing performance. Regular reporting of and investigation and root cause analysis of accidents and near misses. Achievement of challenging health and safety performance targets is a key element of management remuneration. 			
<p>Supply chain</p>	<p>Link to strategy:</p>	<p>Link to KPIs:</p>	<p>Medium</p> <p>Increased </p>
<p>Description</p> <p>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 disruption to the Group's operations.</p> <p>Impact</p> <p>Interruption of supply or poor performance by a supply chain partner could impact the Group's execution of existing contracts, its ability to bid for future contracts and its reputation, thereby adversely impacting financial performance.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> Initiatives are in place to select supply chain partners that match our expectations in terms of quality, sustainability and commitment to client service. Strong relationships maintained with key suppliers including a programme of regular meetings and reviews. No single sourcing arrangements in place. Contingency plans developed to address supplier and subcontractor failure. Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements. Monthly review process to facilitate early warning of issues and subsequent mitigation strategies. Implementation of new purchase contract guidelines. 			

RISK MANAGEMENT

Indian joint venture	Link to strategy: 	Link to KPIs:  	Medium Stable 
<p>Description</p> <p>The growth, management and performance of the business is a key element of the Group’s overall performance. Effective management of the joint venture is therefore important to the Group’s continuing success.</p> <p>Crucial to the long-term success of the joint venture is the development of the market for steel (rather than concrete) construction.</p> <p>Impact</p> <p>Failure to effectively manage operations in India could lead to financial loss, reputational damage and a drain on cash resources to fund the operations.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> • Robust joint venture agreement. • Two members of the Group’s board of directors are members of the joint venture board. • Strong governance in place at the joint venture. • 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. • Overhead reduction and operational improvement programmes are ongoing. 			
Information technology resilience	Link to strategy: 	Link to KPIs:    	Medium Increased 
<p>Description</p> <p>Technology failure, cyber-attack or property damage could lead to IT disruption with resultant loss of data, loss of system functionality and business interruption.</p> <p>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.</p> <p>Impact</p> <p>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.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> • IT is the responsibility of a central function which manages the majority of the systems across the Group. Other IT systems are managed locally by experienced IT personnel. • Significant investments in IT systems are subject to board approval. • Group IT committee ensures focused strategic development and resolution of issues impacting the Group’s technology environment. • Robust business continuity plans are in place. • Data protection and information security policies are in place across the Group, including anti-virus software, off-site and on-site backups, storage area networks, software maintenance agreements and virtualisation of the IT environment. • Cyber-crimes and associated IT risks are assessed on a continual basis. • ISO 27001 certification project is ongoing to further improve the Group’s information security environment. 			

<p>People</p>	<p>Link to strategy:</p> 	<p>Link to KPIs:</p> 	<p>Medium</p> <p>Reduced </p>
<p>Description</p> <p>In the current improving economic environment, it can become increasingly difficult to recruit capable people and retain key employees, especially those targeted by competitors. The ability to identify, attract, develop and retain talent is crucial to satisfy the current and future needs of the business.</p> <p>Impact</p> <p>Loss of key people could adversely impact the Group's existing market position and reputation. Insufficient growth and development of its people and skillsets could adversely affect its ability to deliver its strategic objectives.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> • Remuneration policy is regularly reviewed (and benchmarked where possible) to ensure that it is competitive and strikes the appropriate balance between short and long-term rewards and incentives. • Skills gaps are continually identified and actions put in place to bridge these by training, development or external recruitment. • In 2015/16 we conducted a Group-wide review of emerging talent to ensure consistency and visibility of talent, succession planning and career opportunity. • Annual appraisal process is now in place (providing 360 degree feedback on performance for certain employees). • Leadership and management development plans are in place. • Graduate, trainee and apprenticeship schemes are in place to safeguard an inflow of new talent. 			
<p>Industrial relations</p>	<p>Link to strategy:</p> 	<p>Link to KPIs:</p> 	<p>Medium</p> <p>Stable </p>
<p>Description</p> <p>The Group (and the industry in general) has a significant number of members who are members of trade unions. Industrial action taken by employees could impact on the ability of the Group to maintain effective levels of production.</p> <p>Impact</p> <p>Interruption to production by industrial action could impact both the Group's performance on existing contracts, its ability to bid for future contracts and its reputation, thereby adversely impacting its financial performance.</p>			
<p>Mitigation</p> <ul style="list-style-type: none"> • Employee and union engagement takes place on a regular basis. • The Group has four main production facilities so interruption at one facility could to some extent be absorbed by increasing capacity at a sister facility. • Processes are in place to mitigate disruptions as a result of industrial action. 			



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GOVERNANCE

Our governance

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BOARD OF DIRECTORS



John Dodds

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

Non-executive chairman

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

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



Ian Lawson

Appointed: 2013

Chief executive officer

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

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



Ian Cochrane

Appointed: 2013

Chief operating officer

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.



Alan Dunsmore

Appointed: 2010

Group finance director

Alan joined the Group from Smiths Group plc. He joined Smiths Group 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.



Derek Randall

Appointed: 2008

Executive director and managing director at JSW Severfield Structures Limited

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

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

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



Kevin Whiteman

Appointed: 2014

Senior independent director

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

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



Tony Osbaldiston

Appointed: 2014

Non-executive director

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

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



Alun Griffiths

Appointed: 2014

Non-executive director

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

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



Chris Holt

Appointed: 2011

Non-executive director

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

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

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

EXECUTIVE COMMITTEE



**1 Ian Lawson
Chief executive officer**

For details see board of directors on page 58

**2 Ian Cochrane
Chief operating officer**

For details see board of directors on page 58

**3 Alan Dunsmore
Group finance director**

For details see board of directors on page 58

Not
pictured

**Derek Randall
Executive director and managing
director at JSW Severfield
Structures**

For details see board of directors on page 58

**4 Gary Wintersgill
Managing director, Severfield
(UK)**

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

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

**5 Jim Martindale
Managing director, Severfield
(Design & Build)**

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

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

**6 Brian Keys
Managing director, Severfield (NI)**

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

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

**7 Mark Sanderson
Group legal director and Company
secretary**

Mark joined the Group in September 2013.

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

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

**8 Martin Kelly
Group strategic business
development director**

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

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

**9 Sian Evans
Group HR director**

Sian joined the Group in January 2013.

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

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

CHAIRMAN'S LETTER



John Dodds
Chairman

Dear shareholder

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

Our corporate governance report is set out on pages 63 to 66 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code'). Whilst currently subject to the provisions of the Code applicable to smaller companies, we seek, where appropriate, to follow those applicable to FTSE 350 companies.

Accountability

In September 2014, the Financial Reporting Council ('FRC') published the latest edition of the Code, which included a number of changes around directors' remuneration, risk management and internal control, all of which we have adopted.

In 2015/16, the audit committee discussed and agreed the process we are required to undertake to enable the board to make the new viability statement as required under the Code. The viability statement is set out on page 41 within the strategic report. Also within the strategic report, our risk management section includes the annual confirmations on risk management and internal control that were previously included in the corporate governance report (see page 63). The Group's risk management processes have been further enhanced in 2015/16. The process continues to evolve through improvements to the Group risk register and risk assurance map, together with the development of a new compliance framework. The audit committee oversees the risk management process on behalf of the board.

In line with the requirements of the Code, we continue to focus on ensuring that the views presented in the annual report are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy. Further details can be found in the audit committee report on page 67.

Board effectiveness

I believe that the Group continues to be led by a capable, experienced and well-balanced board, strengthened by the appointment of the three new non-executive directors in the previous financial year. During 2015/16, the board visited the Group's fabrication facilities at Dalton, Sherburn and Enniskillen and toured the CMF factory in Pontypool, all of which were accompanied by local management presentations. Such visits enabled the non-executive directors to deepen their knowledge and understanding of the day-to-day functioning of the Group's operations.

Board evaluation

During the year, an internal board evaluation was undertaken by Kevin Whiteman, the senior independent director. This evaluation tested key areas of the board's work including strategy, business performance, risk and governance processes and included an evaluation of my own performance as well as that of individual directors. Following this review, and recommendations from the nominations committee, I am satisfied that the board and its committees are performing effectively and that there is the appropriate balance of skills, experience, independence and knowledge of the Group to enable the directors to discharge their respective duties and responsibilities effectively. I am also satisfied that the members of the board, in particular the non-executive directors, have sufficient time to undertake their roles, so as to be able to discharge their responsibilities effectively. Accordingly, all directors will seek re-election at the AGM.

AGM

Our AGM this year will be held at Aldwark Manor Hotel, York, YO61 1UF on 6 September 2016 at 12.00pm and I look forward to seeing you then.

John Dodds

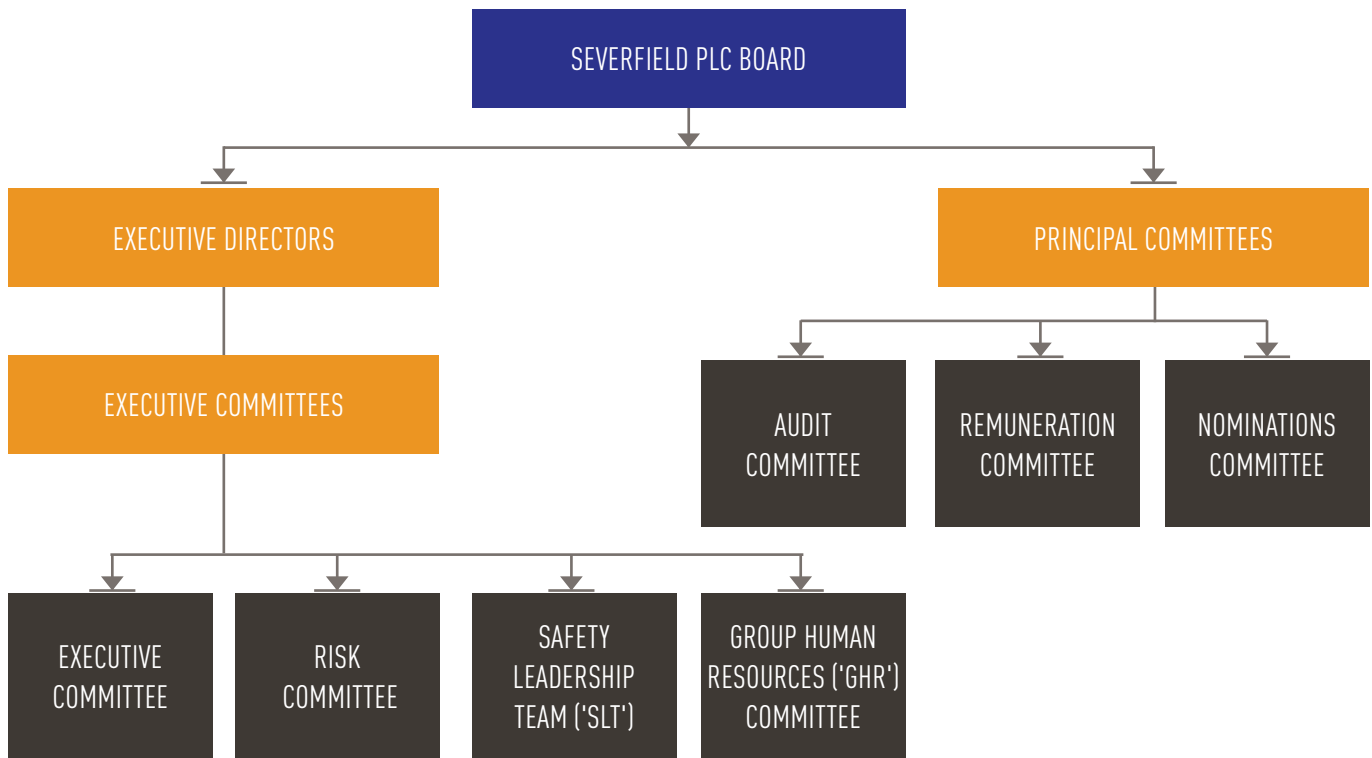
Non-executive Chairman
15 June 2016

Compliance with the UK Corporate Governance Code

The board considers that it and the Company have, throughout the year, complied without exception with the provisions of the UK Corporate Governance Code (September 2014), which is the version of the Code which applies to the Company for its 2015/16 financial year. The Code is issued by the FRC and is available for review on the FRC's website (www.frc.org.uk).

CORPORATE GOVERNANCE REPORT

LEADERSHIP



Structure of the board

The Company is controlled through the board of directors, which consists of the chairman, four other non-executive directors and four executive directors. Four of these directors have been directors of the Company for less than three years. The membership of the board is stated on pages 58 and 59.

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

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

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

The chairman, John Dodds, is mainly responsible for managing the business of the board, evaluating its performance and setting the agenda for board meetings to

ensure that adequate time is allocated to the discussion of all agenda items, facilitating the effective contribution of all directors. The chairman acts as an ambassador for the Company and provides effective communication between the board and its shareholders.

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

The chief executive officer chairs an executive committee consisting of the members indicated on pages 60 and 61. This committee assists the main board by focusing on strategic and operational performance matters relating to the business and meets formally on a monthly basis. He also, together with the Group finance director and chief operating officer, holds quarterly meetings with each of the three business unit boards to review

all operational issues and meets with an executive risk committee comprising himself, the Group finance director, chief operating officer and the Group legal director on a weekly basis to discuss any key issues affecting the business.

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

Kevin Whiteman is the senior independent non-executive director whose role is to provide a sounding board for the chairman and to serve as an alternative source of advice to the chairman for the other non-executive directors.

The senior independent director is available to shareholders if they request a meeting or have concerns which contact through the normal channels has failed to resolve, or where such contact is inappropriate. He also leads the performance review of the chairman, taking into account the views of the executive directors.

CORPORATE GOVERNANCE REPORT

Independence

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

At no time during the year ended 31 March 2016 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 85. Save as disclosed in the directors' remuneration report, none of the directors, or any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries.

Directors to stand for election

The Company's articles of association require the directors to offer themselves for re-election at least once every three years. Notwithstanding this, and in accordance with the recommendations of the Code, the Company's policy is that

all of the directors retire at each AGM and may offer themselves for re-election by shareholders. Accordingly, all of the existing directors whose biographies are set out on pages 58 and 59 will be standing for re-election at the 2016 AGM.

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

EFFECTIVENESS

Operation of the board

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

achievement of those budgets, significant capital expenditure programmes and the annual and half year results.

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

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

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2016 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	4	6	2
Executive directors				
Ian Lawson	11/11	–	–	–
Ian Cochrane	9/11*	–	–	–
Alan Dunsmore	10/11†	–	–	–
Derek Randall	11/11	–	–	–
Non-executive directors				
John Dodds	11/11	4/4	6/6	2/2
Kevin Whiteman	11/11	4/4	6/6	2/2
Tony Osbaldiston	11/11	4/4	6/6	2/2
Alun Griffiths	11/11	4/4	6/6	2/2
Chris Holt	11/11	4/4	6/6	2/2

* Ian Cochrane was unable to attend two board meetings: one due to illness and one due to a family bereavement.

† Alan Dunsmore was unable to attend one board meeting due to illness.

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

Board calendar

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

April 2015

- Site tour of Sherburn factory with Severfield (Design & Build) management presentations
- Discussed feedback from Capital Markets Day
- Strategic review undertaken

May 2015

- Site tour of Dalton factory with Severfield (UK) management presentations

June 2015

- Reviewed and approved annual report and accounts
- Approved final dividend

July 2015

- Reviewed feedback from investor roadshows
- Approved appointment of PwC as new internal auditor

September 2015 (two meetings)

- Site tour of Enniskillen factory with Severfield (NI) management presentations
- Update to strategic review undertaken
- Reviewed annual statements of compliance from directors and approved conflicts of interest
- Approved enhanced risk management and internal control processes

November 2015 (two meetings)

- Board site safety visit (Angel Court) and presentation by Group SHE director
- Approved investment in Composite Metal Flooring ('CMF') Limited
- Reviewed and approved half year results
- Approved interim dividend

January 2016

- Reviewed feedback from investor roadshows

February 2016

- Agreed scope and content of board and chairman evaluation

March 2016

- Site tour of CMF factory in Pontypool with CMF management presentations
- Visit to Severfield (UK) offices in Chepstow with management presentations from Severfield (UK) bridges division
- Reviewed board and chairman evaluation results

Board evaluation

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

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

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

A further evaluation of the board will be undertaken during the year ending 31 March 2017.

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.

CORPORATE GOVERNANCE REPORT

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

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

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

Board committees

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

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

Details of the work of the audit, nominations and remuneration committees are set out on pages 67 to 88.

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 95 to 137) and a statement by the auditor concerning their responsibilities (page 92). The directors also report that the business is a going concern (page 72) and detail how the Group generates and preserves value over the longer term (the business model) and the Group's strategy for delivering its objectives in the strategic report (pages 14 to 27). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 41).

Annual report

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

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

REMUNERATION

The directors' remuneration report is on pages 74 to 88. It sets out the activities of the committee, the levels and components of remuneration and refers to the development of the remuneration policy.

RELATIONS WITH SHAREHOLDERS

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

The executive directors undertake a programme of regular communication with institutional shareholders and with analysts covering the Group's activities, its performance and strategy. Ian Lawson and Alan Dunsmore attended several meetings with institutional shareholders, private investors and analysts during the year, at the time of the announcements of the Group's annual and half year results, during visits to the Group's head office in North Yorkshire and on an ad hoc basis as required. In addition, a capital markets event took place on 21 April 2016, attended by analysts and investors. Feedback from those meetings was reported to the board, including the non-executive directors.

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

AUDIT COMMITTEE REPORT



Tony Osbaldiston
Chairman of the audit committee



THE MEMBERS HAVE BEEN SELECTED TO PROVIDE THE WIDE RANGE OF FINANCIAL AND COMMERCIAL EXPERTISE NECESSARY TO FULFIL THE COMMITTEE'S DUTIES."

Members

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

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

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

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

Role

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

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

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

- To monitor the integrity of the financial statements and formal announcements and to review significant financial reporting judgements.
- To review the Group's internal financial controls.
- 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

- Reviewed the interim results for the period ended 30 September 2015 and the year-end results for the period ended 31 March 2016.
- Reviewed the significant management judgements reflected in the Group's results including significant contract judgements and the carrying value of goodwill and investments.
- Reviewed and agreed significant accounting risks and principal business risks for the year ended 31 March 2016.

AUDIT COMMITTEE REPORT

- Provided oversight of the process used by executive management to enable the board to make the new viability statement, including review of the appropriateness of the three-year viability period.
- Reviewed the additional measures taken by management to monitor and review the effectiveness of the Group's risk management processes in response to changes to the Code.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 31 March 2016.
- Discussed the report received from the external auditor regarding the audit of the results for the year ended 31 March 2016. 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.
- Proposed the appointment of PwC LLP ('PwC') as internal auditor, reviewed their internal audit plan and internal audit reports covering various aspects of the Group's operations, controls and processes.
- Reviewed the Group's risk register.
- Considered the effectiveness of the external auditor, KPMG LLP ('KPMG'), their independence and reappointment for the year ending 31 March 2017.

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. 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, that there is a clear and well-articulated 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.

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 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 48 to 55.

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

Prior to the publication of the full-year results for 2015/16, the committee undertook a detailed assessment of the viability statement and recommended to the board that the directors can believe that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The viability statement can be found on page 41 of the strategic report.

Internal audit

The Group's internal audit function is currently outsourced to PwC, who were appointed in September 2015. This followed the decision to appoint KPMG, who had previously acted as internal auditor, as the Group's external auditor, their formal appointment being confirmed at the AGM on 2 September 2015. During the year ended 31 March 2016, as previously agreed with the committee, KPMG delivered a further three non-financial reviews but conducted no further reviews of key financial controls.

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 committee reviewed and approved PwC's three-year internal audit plan at its meeting in February 2016. 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 both KPMG and PwC in the current year were also discussed in detail at each of the committee's meetings.

Financial reporting and significant financial issues

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

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

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

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

In addition, the committee has considered a number of other judgements which have been made by management, none of which had a material impact on the Group's 2015/16 results. These include the valuation of pension scheme liabilities and the remedial costs associated with the Leadenhall bolts issue, which resulted in a non-underlying charge of £6m being recorded in the 2014/15 results.

Audit tendering

The committee considers the reappointment of the external auditor, including the rotation of the audit partner, 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 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.

The Group conducted a rigorous audit tender process beginning in September 2014. As a result of the tender, KPMG replaced Deloitte as the Group's external auditor. KPMG carried out the review of the Group's 2015/16 interim results and have just completed their first full audit of the 2015/16 financial statements.

The external auditor is required to rotate the audit partner responsible for the Group audit every five years. The audit partner is Adrian Stone, whose appointment in this role commenced with the audit for the financial year ended 31 March 2016. Adrian and members of his team attended each of the audit committee meetings during the current year. As chairman of the committee, I also maintain regular contact with the audit partner. The committee routinely meets KPMG without executive management present and no concerns have been raised. It was confirmed that the external auditor had been able to offer rigorous and constructive challenge to executive management during the year.

The committee will continue to assess the performance of the external auditor on an ongoing basis to ensure that they are satisfied with the quality of the services provided.

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.

There is no inconsistency between the Financial Reporting Council's ethical standards and the Group's policy.

Other categories, such as audit-related services or work which, because of the auditor's existing knowledge of the Group's business, could be more effectively carried out by it, may, if not on the list of prohibited services, be carried out by the external auditor subject to the advance approval of the Group finance director or, if the fees for such services exceed an absolute limit or a specified proportion of the audit fee, the advance approval of the audit committee. Details of the auditor's fees, including non-audit fees, are shown in note 4 to the consolidated financial statements.

The committee notes that the FRC published its final draft revised ethical standard for auditors on 28 April 2016. This becomes effective on 17 June 2016. The standard applies further restrictions to the non-audit services which might be undertaken by the Group's auditor. The committee will review these new restrictions during the course of the year with a view to ensuring that the Group's practices align fully with the new standard.

Tony Osbaldiston

Chairman of the audit committee
15 June 2016

NOMINATIONS COMMITTEE REPORT



John Dodds
Chairman of the nominations committee



THE PRIMARY FUNCTION OF THE COMMITTEE IS TO DEAL WITH KEY APPOINTMENTS TO THE BOARD.”

Members

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

The committee met on two occasions during the year.

Role

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

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

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

Board effectiveness

The committee has had a relatively quiet 2015/16. There have been no new board appointments as the board is currently at full strength, and considered to be operating effectively. The board now consists of nine directors, four of whom have been directors of the Company for less than three years.

Diversity

We recognise the importance of diversity in board effectiveness and remain committed to ensuring that appointments are ultimately made on merit and against agreed selection criteria.

We support the Davies report's aspiration to promote greater female representation on listed company boards. The Group, however, does not believe in the concept

of gender quotas, our preferred approach being much more directed at merit, experience and skill.

In the sectors in which the Group operates female representation at a senior level is unusual and as at 31 March 2016, the board had no female directors. As and when board appointments arise, and where practicable, we will look to follow the procedures recommended by the Davies report and by the Code to maintain a balanced board.

The Group's policy on diversity applies across all levels of the organisation, not just the board, further details of which can be found on page 46. The board recognises that gender diversity below board level remains 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. This worked effectively in 2014 when three new non-executive directors were recruited to the board. More work has been done this year to formalise the process of ongoing succession planning across the Group.

Evaluation

The committee (led by Kevin Whiteman) performed an internal evaluation using the process described on page 65. The results of the evaluation were positive, following the significant changes made to the board in the previous year. The key points arising from the evaluation were documented and discussed with the chairman.

John Dodds

Chairman of the nominations committee
15 June 2016

DIRECTORS' REPORT

Introduction

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2016.

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 14 to 55 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 management.

The corporate governance report on pages 63 to 66 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 58 and 59.

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

The service agreements of the executive directors and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office. Brief details are also included in the directors' remuneration report on page 79.

Appointment and replacement of directors

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

Powers of the directors

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

Directors' indemnities

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

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

Significant shareholdings

As at 6 June 2016, 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	49,653,703	16.69
2. M&G Investments	44,349,496	14.91
3. Threadneedle Investments	27,882,392	9.37
4. Artemis Investment Management	23,936,898	8.05
5. Legal & General Investment Management	20,415,981	6.86
6. River & Mercantile Asset Management	17,132,841	5.76
7. Invesco (including Perpetual & Trimark)	15,710,935	5.28

DIRECTORS' REPORT

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 2016, there were 297,503,587 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. At the Company's Annual General Meeting ('AGM') held on 2 September 2015, 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 2016 AGM (see below) and a renewal will be sought. The Company did not purchase any of its ordinary shares during the year. Further details regarding employee share-based payment schemes are set out in note 21.

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 2015 AGM. These documents are available on the Company's website at www.severfield.com.

Dividends

The directors declared an interim dividend for the six months ended 30 September 2015 of 0.5p per ordinary share (2015: no dividend was declared). The directors have recommended a final dividend of 1.0p per ordinary share to be paid on 16 September 2016 to shareholders on the register at the close of business on 19 August 2016.

Change of control

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

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

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

Amendment of articles of association

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

Political contributions

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

Going concern

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

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

Additional disclosures

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

- Employee involvement and engagement – pages 45 and 46
- Equal opportunities (including for the disabled) – page 46
- Greenhouse gas emissions – page 45
- Long-term incentive plans – pages 78 and 79 of the directors' remuneration report
- Statement of directors' interests – page 85 of the directors' remuneration report
- Financial instruments – note 20 to the Group financial statements
- Credit, market, foreign currency and liquidity risks – note 20 to the Group financial statements
- Related party disclosures – note 30 to the Group financial statements

Disclosure of information to the external auditor

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

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

External auditor

KPMG LLP acted as the auditor for the Company for the year ended 31 March 2016. 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 6 September 2016, 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 71 to 73 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson

Company secretary
15 June 2016

Mark Sanderson
Company secretary



DIRECTORS' REMUNERATION REPORT



Alun Griffiths
Chairman of the remuneration committee



I AM PLEASED TO REPORT THAT BOTH THE BASE FINANCIAL AND SAFETY TARGETS SET BY THE BOARD WERE MET.”

REMUNERATION POLICY IS ALIGNED WITH THE PRIORITIES OF SHAREHOLDERS IN INCENTIVISING MANAGEMENT TO MEET DEMANDING SHORT-TERM TARGETS AND TO DELIVER SUSTAINABLE GROWTH OVER THE LONGER TERM, WHILST ENSURING THAT HIGH SAFETY STANDARDS ARE ACHIEVED.

Dear shareholder Performance and remuneration in 2015/16

The Group performed strongly during the year making further progress against its strategic objectives of growth, margin improvement and stabilising India. This progress was underlined by the Group's excellent year-end cash position.

Remuneration policy is aligned with the priorities of shareholders in incentivising management to meet demanding short-term targets and to deliver sustainable growth over the longer term, whilst ensuring that high safety standards are achieved. Fifty per cent of any bonus is paid in shares, deferred for three years, and specific provisions are included for clawback in the event of material misstatement, error or gross misconduct.

Remuneration policy

Shareholders approved the remuneration policy of the Group in 2014 with a vote in favour of 99.8 per cent. The policy report, which remains unchanged, is included for information purposes.

Annual remuneration report

The annual remuneration report describes the implementation of this policy, in particular in relation to reward for performance in 2015/16.

I am pleased to report that both the base financial and safety targets set by the board were met, resulting in a bonus pay out of 63 per cent of the maximum (42 per cent of the maximum for India). In 2014/15, the non-underlying remedial costs of £6m for the Leadenhall building were excluded when determining the bonus pay out on the basis that any future recovery of these costs would not be included in underlying profit before tax ("PBT"). In 2015/16, no Leadenhall costs were recovered.

The targets for the 2013 PSP award (PBT of between £8m and £18m) were met resulting in the expected vesting of these awards at 64 per cent of maximum.

During the year, the salary of the Group finance director, Alan Dunsmore was increased by 6 per cent. This reflected both his strong performance during the year and the fact that his salary had fallen materially behind the market, as confirmed by external benchmarking information. The other directors received a 3 per cent increase which was broadly in line with that received by the UK workforce. In all cases the increases were effective from 1 July 2015.

Implementation of policy for 2016/17

Whilst overall policy currently remains unchanged, the board has decided to increase the PSP award to be granted in 2016/17 for the Group finance director from 75 per cent to 100 per cent of salary (policy maximum of 150 per cent of salary). This brings the level of award for this executive into line with the market and strengthens the value of his performance and retention incentive.

Ahead of the 2017 AGM, when our remuneration policy will be subject to shareholder approval, we will review the structure of future PSP awards to ensure that the award levels and targets continue to provide an appropriate incentive in line with market practice.

Salaries for the directors will be reviewed in October of this year after the conclusion of the pay review across the Group and will be backdated to 1 July 2016. No increases are planned for the chairman or non-executive directors.

Targets for 2016/17

The financial and safety performance targets for the 2016/17 bonus reflect the continued strong forward momentum of the Group. The committee considered the balance of financial and non-financial measures, as well as the appropriateness of each measure, and considers that these remain appropriate for the year ahead.

The share plan targets are intended to incentivise management to maintain this momentum and will require the Group to deliver earnings per share ('EPS') in the range of 5.06p to 6.53p in 2018/19. This equates to a PBT range of £18.6m to £24.0m. This represents an increase in the lower vesting threshold of £2.6m per annum (16 per cent) and holds the threshold at which maximum vesting takes place at £24.0m. This represents a narrower vesting range which the board feels is more realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

Conclusion

The committee is committed to maintaining high levels of disclosure and transparency by explaining in more detail how it has reached decisions regarding the achievement of performance targets. Linking pay to performance is critical and as such, the committee has endeavoured to set future bonus and share plan targets at a level which incentivises and rewards management but only for performance at a level which also ensures appropriate returns for shareholders. The committee will continue to engage with shareholders to ensure that the policy of the Group remains appropriate.

Alun Griffiths

Chairman of the remuneration committee
15 June 2016

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 2014 and the UKLA Listing Rules and the Disclosure and Transparency Rules. The remuneration committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the Investment Association and the NAPF.

The report is in two sections:

- a summary of the directors' remuneration policy (pages 76 to 81). This section contains details of the remuneration policy approved at the 2014 AGM and is for information only; and
- the directors' annual remuneration report (pages 81 to 88). This section sets out the details of how our remuneration policy was implemented for the year ended 31 March 2016 and how we intend to apply it for the year ending 31 March 2017, and it is subject to an advisory vote at this year's AGM.

Summary of directors' remuneration policy

The remuneration policy was approved at 2014's AGM. 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 66 in the 2014 annual report.



Find out more information on our website www.severfield.com

It is intended this policy will remain in place until the 2017 AGM.

Remuneration policy

Executive directors

Base salaries	
Purpose and link to strategy	
To provide the core reward for the role. Sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
Base salaries are normally reviewed annually by the committee. Our review takes into account levels of increase across the broader workforce, changes in responsibility, and a periodic remuneration review for comparable companies.	
Maximum opportunity	Performance conditions
There is no prescribed maximum. Current salaries are disclosed in the annual report on remuneration. Increases (as a percentage of salary) are generally limited to the range set for the wider workforce. However, further increases may be awarded where there have been significant changes in the scope and/or responsibilities of the role or a material change in the size and scale of the Group.	The committee considers individual salaries each year having due regard to the factors noted in operation of the policy. No recovery provisions apply to salary.

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	
<p>The Group currently provides the following employee benefits:</p> <ul style="list-style-type: none"> • Life assurance at four times salary • Medical insurance for self with option to purchase for family • Company car and fuel allowance <p>Relocation expenses would be paid as appropriate for new recruits or a change in role.</p> <p>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.</p> <p>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.</p>	
Maximum opportunity	Performance conditions
<p>The value of insured benefits can vary from year to year based on the costs from third party providers.</p> <p>The total value of benefits (excluding relocation and international assignment allowances) will not exceed more than 15 per cent of salary in any year.</p>	No performance conditions or recovery provisions apply to benefits.
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	
<p>Group contribution to defined contribution scheme (own or the Group's), a cash supplement or a combination of both up to the maximum value.</p> <p>Director has no obligation to match Group contributions.</p>	
Maximum opportunity	Performance conditions
<p>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 p.a.).</p> <p>For international assignments the Group may be required to make additional payments to comply with local statutory requirements.</p>	No recovery provisions apply to pension benefits.

DIRECTORS' REMUNERATION REPORT

Annual bonus	
Purpose and link to strategy	
To focus attention on achieving short-term corporate objectives, incentivise outperformance of targets and provide a deferred element to reinforce the impact of long-term performance.	
Operation	
Any annual bonus award is made 50 per cent in cash and 50 per cent in shares deferred for three years under the rules of the Group's deferred share bonus plan ('DSBP') which incorporates a clawback mechanism for instances of financial misstatement, error or gross misconduct.	
Dividends may accrue on deferred bonus shares.	
Maximum opportunity	Performance conditions
Maximum 100 per cent of base salary per annum.	<p>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.</p> <p>Currently the business uses a combination of underlying profit before tax ('PBT') targets and accident frequency rate ('AFR') targets.</p> <p>A minority of bonus will be payable for threshold levels of performance.</p> <p>The actual measures and weightings are set out in the annual report on remuneration on page 83.</p>
Performance share plan ('PSP') (approved by shareholders in 2007)	
Purpose and link to strategy	
Incentivise and reward for long-term, sustainable performance linked to corporate strategy and provide alignment with shareholders' interests.	
Operation	
Annual grant of performance shares which will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a three-year period.	
There is a clawback mechanism for instances of financial misstatement, error or gross misconduct.	
Dividends may accrue on vested awards.	
Maximum opportunity	Performance conditions
<p>Maximum annual award level is 150 per cent of salary.</p> <p>The current award policy is, in normal circumstances, for awards of 100 per cent of salary for the chief executive officer and 75 per cent of salary for other executive directors.</p>	<p>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.</p> <p>Currently the awards are subject to an EPS growth target, the details of which are set out in the annual remuneration report.</p> <p>No more than 25 per cent of an award will vest for performance at the lower threshold of EPS targets.</p>

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.

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.

Executive directors' service agreements

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

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

Provision on payment for loss of office

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

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

DIRECTORS' REMUNERATION REPORT

The rules of the PSP and DSBP set out what happens to share awards if a participant ceases to be an employee or director of the Company before the end of the vesting period. Generally, any outstanding share awards will lapse on such cessation, except in certain circumstances.

If the executive director ceases to be an employee or director of the Company as a result of death, disability, retirement, the sale of the business or company that employs the individual or any other reason at the discretion of the committee, then they will be treated as a 'good leaver' under the plan rules. Under the DSBP, the shares for a good leaver will normally vest in full on the normal vesting date (or on cessation of employment in the case of death).

Under the PSP, a good leaver's unvested awards will vest (either on the normal vesting date or the relevant date of cessation, as determined by the committee) subject to achievement of any relevant performance condition, with a pro rata reduction to reflect the proportion of the vesting period served (although the committee has the discretion to disapply time prorating if it considers it appropriate to do so).

In determining whether an executive director should be treated as a good leaver and the extent to which their award may vest, the committee will take into account the circumstances of an individual's departure.

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 or 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 recommendation of the chairman and 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.	<p>Current fee levels are disclosed in the annual report on remuneration.</p> <p>The chairman and the other non-executive directors receive a basic board fee, with supplementary fees payable for additional board responsibilities.</p> <p>Non-executive directors will be reimbursed for any normal business-related expenses and any taxable benefit implications that may result.</p> <p>The non-executive directors do not participate in any of the Group's incentive arrangements or pension scheme.</p> <p>The fee levels are 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.</p> <p>No benefits or other remuneration are provided to non-executive directors.</p>

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

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

Shareholding guideline

Executive directors are required to retain shares acquired under equity incentive schemes until such time they have built up a holding equivalent in market value (at the date of vesting) to the executive's base salary. Thereafter, the executive directors will be under a continuing obligation to maintain at least such a holding. The requirement underscores the committee's policy to align executive director remuneration and shareholder interests.

ANNUAL REMUNERATION REPORT

In this section, we report on the implementation of our policies in the year ended 31 March 2016 as well as how the policy will be implemented for 2016/17. 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.

IMPLEMENTATION OF POLICY FOR 2015/16 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)	6/6
John Dodds	6/6
Chris Holt	6/6
Kevin Whiteman	6/6
Tony Osbaldiston	6/6

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

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

Advisers to the committee

The committee retained New Bridge Street (an Aon plc company) as an independent adviser to the remuneration committee throughout the year. New Bridge Street is a member of the Remuneration Consultants Group and is a signatory to its code of conduct. Neither New Bridge Street nor any other part of Aon plc provided other services to the Group during the year. The fees paid to New Bridge Street for work carried out during the year ended 31 March 2016 totalled £9,000 (2015: £46,000).

DIRECTORS' REMUNERATION REPORT

Directors' earnings for the 2015/16 financial year (audited)

Remuneration received by the directors

£000	Year ended 31 March 2016						Total
	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	
Executives							
Ian Lawson	366	231	—	28	73	204	902
Ian Cochrane	288	181	—	25	50	159	703
Alan Dunsmore	242	152	—	16	50	131	591
Derek Randall	236	102	—	—	50	131	519
Non-executives							
John Dodds	—	—	100	—	—	—	100
Tony Osbaldiston	—	—	45	—	—	—	45
Kevin Whiteman	—	—	45	—	—	—	45
Alun Griffiths	—	—	45	—	—	—	45
Chris Holt	—	—	40	—	—	—	40
	1,132	666	275	69	223	625	2,990

Taxable benefits include the provision of company cars, fuel for company cars, car and accommodation allowances and private medical insurance. LTIPs reflect those PSP awards vesting based on performance to 31 March 2016.

* Calculated at 64 per cent of maximum award x the average share price over the period 1/1/16 to 31/3/16 of 57.97p.

£000	Year ended 31 March 2015						Total
	Salary	Bonus	Fees	Benefits	Pension	LTIPs	
Executives							
Ian Lawson	356	231	—	23	71	—	681
Ian Cochrane	280	182	—	16	50	—	528
Alan Dunsmore	230	149	—	22	50	—	451
Derek Randall	230	189	—	—	50	—	469
Non-executives							
John Dodds	—	—	100	—	—	—	100
Tony Osbaldiston (from 19/7/14)	—	—	32	—	—	—	32
Kevin Whiteman (from 19/7/14)	—	—	32	—	—	—	32
Alun Griffiths (from 1/5/14)	—	—	41	—	—	—	41
Chris Holt	—	—	40	—	—	—	40
Toby Hayward (to 19/7/14)	—	—	18	—	—	—	18
Keith Elliott (to 19/7/14)	—	—	18	—	—	—	18
	1,096	751	281	61	221	—	2,410

Taxable benefits include the provision of company cars, fuel for company cars, car allowances and private medical insurance. LTIPs reflect those PSP awards vesting based on performance to 31 March 2015.

Remuneration received by the directors

During the year the salary for the Group finance director, Alan Dunsmore was increased by 6 per cent following a review which reflected both his strong performance and the fact that his salary had fallen materially behind the market, as confirmed by external benchmarking information provided by New Bridge Street. The other directors received a 3 per cent increase, which was broadly in line with that received by the UK workforce. In all cases the increases were effective from 1 July 2015.

Past directors/loss of office payments (audited)

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

How pay linked to performance in 2015/16

Bonus

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

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

Ian Lawson	£231,000
Ian Cochrane	£181,000
Alan Dunsmore	£152,000
Derek Randall	£102,000

As reported last year, the bonus plan applicable to the executive directors for 2015/16 had two separate performance conditions:

- Eighty per cent was payable on achieving budgeted Group PBT (with 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 payout 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.

The targets for 2015/16 and the payout against these targets are set out below:

All directors (excluding Derek Randall):

Measure	% of maximum bonus opportunity	Performance required			Actual	% of bonus paid	Pay out as % of salary
		Threshold	On-target	Maximum			
Group PBT*	80%	£12.4m	£13.0m	£15.6m	£13.2m	54%	43%
Group AFR	20%	0.28	0.28	0.28	0.25	100%	20%
							63%

* 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.

The total bonus pay out of 63 per cent of salary above applies to all executive directors with the exception of Derek Randall who has the profit performance-based component of his bonus split 50:50 between Group PBT and JSSL (India) PBT and whose AFR-based component is dependent on the performance of India alone. Based on the year-end results Derek achieved a total bonus pay out of 43 per cent as follows:

Derek Randall (JSSL managing director):

Measure	% of maximum bonus opportunity	Performance required			Actual	% of bonus paid	Pay out as % of salary
		Threshold	On-target	Maximum			
Group PBT*	40%	£12.4m	£13.0m	£15.6m	£13.2m	54%	22%
JSSL (India) PBT*	40%	Loss of 12.4 CR	Break-even	Profit of 12.4 CR	Loss of 11.4 CR	4%	2%
JSSL (India) AFR	20%	0.12	0.12	0.12	0.00	100%	20%
							43%

* 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.

In determining the achievement of bonus targets for 2015/16, the committee took into account that no Leadenhall costs were recovered and hence no recoveries were treated as underlying PBT in the current year.

DIRECTORS' REMUNERATION REPORT

PSP

The 2013 PSP awards are due to vest in June 2016, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2016. The minimum EPS figure required for vesting of 25 per cent of the award was c.2.15p which equates to a PBT of £8.0m. The EPS figure required for vesting at maximum of 100 per cent of the award was c.4.87p which equates to a PBT of £18.0m. The actual PBT achieved was £13.2m which equates to EPS of 3.67p and therefore it is estimated that 64 per cent (taking into account linear interpolation) of these awards will vest subject to continued service. A summary is set out below:

PSP awards granted to directors in 2015/16 (audited)

Share awards were made in the year under the PSP scheme for the three-year period expiring on 31 March 2018. Details of the awards made to the executive directors are summarised below.

	Type	Number of shares	% of salary	Face value (£) ¹	Performance condition ²	Performance period	% vesting at threshold
Ian Lawson	Nil-cost option	513,262	100%	358,000	EPS	3 financial years ending 31 March 2018	25%
Ian Cochrane	Nil-cost option	302,366	75%	210,900			
Alan Dunsmore	Nil-cost option	248,656	75%	173,438			
Derek Randall	Nil-cost option	248,656	75%	173,438			

1. Face value calculated based on the pre-grant date share price of 69.75p on 17 June 2015.

2. Performance conditions are based on EPS targets of 4.30p (minimum performance — 25% vests) to 6.45p (maximum performance — 100% vests) with linear interpolation in between. This represents a PBT range of £16m–£24m.

The PSP and the annual bonus plan contain recovery and withholding (i.e. clawback) provisions which can be applied within a year of a PSP award vesting (i.e. within four years of grant) or within a year of a bonus being paid. Clawback can be applied where 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 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. 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 2015	Awards granted in year	Awards lapsed in year	Awards vested in year	Awards held at 31 March 2016
Ian Lawson	2013	2016	EPS	549,020	—	—	—	549,020
	2014	2017	EPS	632,054	—	—	—	632,054
	2015	2018	EPS	—	513,262	—	—	513,262
Total				1,181,074	513,262	—	—	1,694,336
Ian Cochrane	2012	2015	EPS	153,181	—	(153,181)	—	—
	2013	2016	EPS	429,688	—	—	—	429,688
	2014	2017	EPS	372,460	—	—	—	372,460
	2015	2018	EPS	—	302,366	—	—	302,366
Total				955,329	302,366	(153,181)	—	1,104,514
Alan Dunsmore	2012	2015	EPS	272,209	—	(272,209)	—	—
	2013	2016	EPS	353,359	—	—	—	353,359
	2014	2017	EPS	306,298	—	—	—	306,298
	2015	2018	EPS	—	248,656	—	—	248,656
Total				931,866	248,656	(272,209)	—	908,313
Derek Randall	2012	2015	EPS	272,209	—	(272,209)	—	—
	2013	2016	EPS	353,359	—	—	—	353,359
	2014	2017	EPS	306,298	—	—	—	306,298
	2015	2018	EPS	—	248,656	—	—	248,656
Total				931,866	248,656	(272,209)	—	908,313

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

	Threshold (25% vests)	Maximum (100% vests)
2013 award ¹	2.15p	4.87p
2014 award ²	3.23p	6.45p
2015 award ³	4.30p	6.45p

1. Represents a PBT range of £8m–£18m.
2. Represents a PBT range of £12m–£24m.
3. Represents a PBT range of £16m–£24m.

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2016:

	Owned shares ¹	Share incentive plan (SIP) ²	Sharesave scheme	DSBP ³	PSP ⁴	Total ⁵
Executives						
Ian Lawson	82,431	4,562	33,003	111,139	1,694,336	1,925,471
Ian Cochrane	2,708,979	11,924	33,003	148,409	1,104,514	4,006,829
Alan Dunsmore	50,000	11,924	33,003	56,591	908,313	1,059,831
Derek Randall	50,000	4,667	—	88,903	908,313	1,051,883
Non-executives						
John Dodds	319,833	—	—	—	—	319,833
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 78.
4. PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2013 awards which had not actually vested as at 31 March 2016.
5. As at 31 March 2016, only Ian Cochrane satisfies the Company's shareholding guideline (see page 81). The other executive directors will be required to retain a proportion of any net of tax shares which may vest from equity based plans until the guideline is achieved.

Position against dilution limits

Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan (SIP), sharesave scheme and the PSP) must not exceed 10 per cent of the issued share capital in any rolling 10-year period. The Group's position against its dilution limit as at 31 March 2016 was well under the maximum 10 per cent limit at 3.7 per cent.

Performance graph

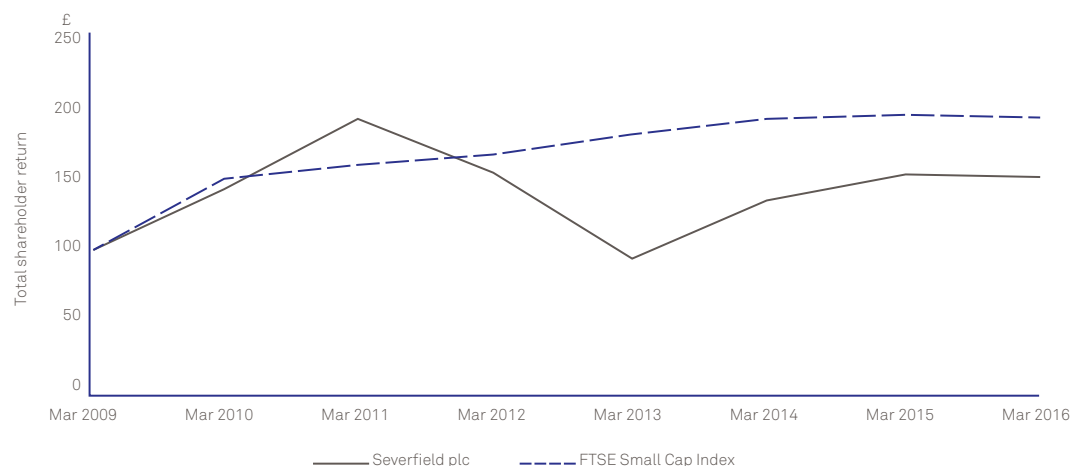
The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. It is based on the change in the value of a £100 investment made on 31 March 2009 over the seven-year period ended 31 March 2016.

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

DIRECTORS' REMUNERATION REPORT

Total shareholder return

Source: Datastream (Thomson Reuters)



Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same seven-year period. Total remuneration includes bonus and the value of PSP awards which vested (or in the case of 2016 are expected to vest) based on performance in those years (at the share price at which they vested or, in the case of the 2016 figures, at the average share price for the quarter immediately prior to the year-end).

	2009 Haughey	2010 Haughey	2011 Haughey	2013 Haughey ¹	2013 Dodds ^{2,3}	2014 Dodds ²	2014 Lawson ⁴	2015 Lawson	2016 Lawson
Total remuneration (£000)	1,265	640	701	450	62	289	233	681	902
Annual bonus (%)	94.8%	50.1%	60.5%	—	N/A	N/A	34.0%	65.0%	63.0%
LTIP vesting (%)	100.0%	100.0%	—	—	N/A	N/A	—	—	64.0%

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.

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 for a group of employees. The committee has selected salaried employees in mainland UK as this geography provides the most appropriate comparator.

	2016 £000	2015 £000	% change
Chief executive officer			
Salary	366	356	2.8%
Benefits	28	23	21.7%
Bonus	231	231	—
Average employees			
Salary	15,532	13,505	15.0%
Benefits	1,135	980	15.8%
Bonus	1,138	998	14.0%

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:

	2016 £000	2015 £000	% change
Staff costs	60,596	53,975	12.3%
Revenue	239,360	201,535	18.8%
Underlying operating profit	13,686	8,974	52.5%
Dividends	2,975	—	100.0%

Shareholder voting

The results below show the response to the 2015 AGM shareholder voting for the directors' 2015 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	245,426,662	99.8%
Against	394,439	0.2%
Total votes cast (for and against)	245,821,101	100%
Withheld votes	203,456	N/A
Total votes (including withheld votes)	246,024,557	N/A

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

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

Implementation of policy for 2016/17

The executive directors' current salaries

The salaries of the executive directors will be reviewed in October 2016. Increases will be set in the context of overall salary increases for the wider workforce. The previous salary increase was on 1 October 2015 backdated to 1 July 2015.

The executive directors' salaries at the start of the 2016/17 financial year are as follows:

	£
Ian Lawson	368,740
Ian Cochrane	289,636
Alan Dunsmore	245,125
Derek Randall	238,188

Benefits and pension

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

Rewards for performance in 2016/17

Bonus

The annual bonus for 2016/17 will operate on the same basis as for 2015/16 and will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity, deferral and clawback provisions. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group.

DIRECTORS' REMUNERATION REPORT

The performance measures and weightings will be as follows:

Profit performance-based component — 80 per cent

The sliding scale range for bonus targets in 2016/17 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

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

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

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

Rewards for performance in 2016/17

PSP

It is the committee's current intention to grant PSP awards of 100 per cent of salary to the chief executive officer and the Group finance director and 75 per cent of salary to the chief operating officer and the JSSL managing director. This represents an increase from 75 per cent to 100 per cent of salary for the Group finance director, reflecting the clear gap to market for this executive. This increases both the incentive and retention value of this award. This change will be made on an exceptional basis for the 2016 awards.

This year we will set a performance condition for a three-year period commencing on 1 April 2016 and ending on 31 March 2019. 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 £18.6m. 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 £24.0m. If this is achieved, 100 per cent of the shares granted will vest. Vesting at EPS levels between the lower and upper thresholds will be calculated by linear interpolation.

This represents an increase of £2.6m (16 per cent) in the lower threshold whilst maintaining the threshold at which maximum vesting takes place at £24.0m. 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 narrower, more 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 equally, if not more, challenging than targets set for prior awards.

How will the non-executive directors be paid in the 2016/17 financial year?

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

£	2016	2015
Chairman	100,000	100,000
Basic fee for other non-executive directors	40,000	40,000
Additional fee for SID role	5,000	5,000
Additional fee for chairman of audit and remuneration committees	5,000	5,000

Approval

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

Alun Griffiths

Chairman of the remuneration committee
16 June 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

By order of the board

Ian Lawson

Chief executive officer
15 June 2016

Alan Dunsmore

Group finance director
15 June 2016



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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Severfield plc for the year ended 31 March 2016 set out on pages 95 to 129 and 131 to 137. 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 2016 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.

2 Our assessment of risks of material misstatement

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

Carrying value of construction contracts balance (£44.5m) and revenue (£239.4m) and profit recognition in relation to construction contracts

Refer to page 69 (audit committee report), pages 102 and 106 (accounting policies) and note 16 (financial disclosure).

The risk:

The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract balance as well as the revenue and profit recognised are based on estimates of costs to complete and level of unagreed variations and judgement as to the recoverability of those variations. Estimated contract costs, and as a result revenues, can be affected by a variety of uncertainties that depend on the outcome of future events resulting in revisions throughout the contract period.

Our response:

Our audit procedures included:

- Testing the Group's controls over the contract outcome evaluations (contract valuation) through inspection of a sample of available meeting minutes throughout the year and subsequent to the year end. At these meetings the Group reviews performance on a contract by contract basis with a key focus on costs to date, costs to complete, forecasted margin, certified work to date and agreed and unagreed variations. We assessed if the appropriate individuals attended the meetings and that the estimated final contract price and costs to complete forecasts for all contracts were discussed, challenged and the contract outcome evaluations updated as appropriate.
- Identifying contracts with risk indicators including: low margin or loss making contracts, high values of unagreed variations and large carrying value of amounts receivable on contracts. For these contracts we agreed the year-end construction contract balance to the cash recovered post period end and considered the variations agreed and work certified post year-end.
- Challenging the Group in respect of construction contract balances in the sample identified, where cash has not been received, variations have not been agreed or work has not been certified post year-end, by obtaining correspondence with the clients to corroborate the position.
- Assessing the forecasted cost to complete in the sample identified by considering contract performance and costs incurred post year-end along with discussions and challenge of contract managers who are responsible for the contract.
- Assessing the forecasting accuracy of contract margins by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved.

Carrying value of goodwill (£54.7m) and investment in Indian joint venture (£4.5m)

Refer to page 69 (audit committee report), pages 101 to 106 (accounting policies) and notes 11 and 14 (financial disclosure)

The risk:

The carrying value of goodwill depends on assumptions of future financial performance which inherently contain an element of judgement and uncertainty. In addition, the investment in the joint venture is at risk of impairment due to its recent performance. Significant areas of judgement include sales growth rates, operating margins and the discount rate applied to future cash flows.

Our response:

Our audit procedures included:

- Considering the Group's impairment model for integrity and internal consistency with board approved budgets and forecast. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected growth and discount rates.
- Performing sensitivity analysis on key assumptions to understand their impact on headroom.
- Considering the Group's historical budgeting accuracy, by assessing actual performance against budget.

We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and investment in the joint venture.

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

The materiality for the Group financial statements as a whole was set at £650,000, determined with reference to a benchmark of profit before tax, normalised to exclude this year's other items as disclosed in note 5 of the accounts, of which it represents 4.9 per cent. The Group team performed procedures on the items excluded from normalised Group profit before tax. If other items disclosed in note 5 are not adjusted materiality represents 6.7 per cent of Group profit before tax.

We reported to the audit committee any corrected or uncorrected audit differences exceeding £32,500 in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six reporting components, we subjected five to audits for Group reporting purposes. The components within the scope of our work accounted for the following percentages of the Group's results: 100 per cent of Group revenue, 94 per cent of Group net assets and 100 per cent of Group profit before tax.

For the remaining component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group 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 team approved the component materialities, which ranged from £320,000 to £400,000, having regard to the mix of size and risk profile of the Group across the components. The work on one of the six components was performed by overseas component auditors and the rest by the Group team.

The Group team visited one component location in India. Video and telephone conference meetings were also held with these component auditors. At these visits and 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.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

5 We have nothing to report on the disclosures of principal risks

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

- the directors' viability statement on page 41, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 31 March 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the audit committee report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 41 and 72, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 62 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 89, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Adrian Stone

(Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered accountants
One Sovereign Square
Sovereign Street
Leeds
LS1 4DA
15 June 2016

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 MARCH 2016

	Note	Before other items 2016 £000	Other items 2016 £000	Total 2016 £000	Before other items 2015 £000	Other items 2015 £000	Total 2015 £000
Continuing operations							
Revenue	3	239,360	—	239,360	201,535	—	201,535
Operating costs	4	(225,674)	(3,568)	(229,242)	(192,561)	(8,502)	(201,063)
Operating profit before share of results of JVs and associates		13,686	(3,568)	10,118	8,974	(8,502)	472
Share of results of JVs and associates	14	(230)	—	(230)	(213)	—	(213)
Operating profit		13,456	(3,568)	9,888	8,761	(8,502)	259
Net finance expense	7	(245)	—	(245)	(450)	—	(450)
Profit/(loss) before tax		13,211	(3,568)	9,643	8,311	(8,502)	(191)
Taxation	8	(2,280)	1,237	(1,043)	(1,449)	1,784	335
Profit for the year attributable to the equity holders of the parent		10,931	(2,331)	8,600	6,862	(6,718)	144
Earnings per share:							
Basic	10	3.67p	(0.78p)	2.89p	2.31p	(2.26p)	0.05p
Diluted	10	3.65p	(0.78p)	2.87p	2.31p	(2.26p)	0.05p

Further details of other items are disclosed in note 5 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2016

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Actuarial gain/(loss) on defined benefit pension scheme*	29	1,300	(4,471)
Tax relating to components of other comprehensive income*	19	(353)	1,033
Other comprehensive income for the year		947	(3,438)
Profit for the year from continuing operations		8,600	144
Total comprehensive income for the year attributable to equity holders of the parent		9,547	(3,294)

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

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2016

	Note	At 31 March 2016 £000	At 31 March 2015 £000
Assets			
Non-current assets			
Goodwill	11	54,712	54,712
Other intangible assets	12	4,480	7,088
Property, plant and equipment	13	77,362	76,606
Interests in JVs and associates	14	11,611	4,802
Deferred tax asset	19	1,100	1,870
		149,265	145,078
Current assets			
Inventories	15	5,294	4,767
Trade and other receivables – due after one year £1,099 (2015: £1,711)	17	50,742	64,530
Derivative financial instruments	20	—	118
Cash and cash equivalents	20	19,033	6,884
		75,069	76,299
Total assets		224,334	221,377
Liabilities			
Current liabilities			
Trade and other payables	18	(55,311)	(58,406)
Financial liabilities — derivatives	20	(830)	—
Financial liabilities — finance leases	20	(180)	(205)
Current tax liabilities		(1,911)	(1,123)
		(58,232)	(59,734)
Non-current liabilities			
Retirement benefit obligations	29	(14,602)	(16,477)
Financial liabilities — finance leases	20	(409)	(589)
Deferred tax liabilities	19	(2,885)	(3,993)
		(17,896)	(21,059)
Total liabilities		(76,128)	(80,793)
Net assets		148,206	140,584
Equity			
Share capital	22	7,437	7,437
Share premium		85,702	85,702
Other reserves	23	2,300	1,250
Retained earnings		52,767	46,195
Total equity		148,206	140,584

The consolidated financial statements were approved by the board of directors on 15 June 2016 and signed on its behalf by:

Ian Lawson
Chief executive officer

Alan Dunsmore
Group finance director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2016

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2015		7,437	85,702	1,250	46,195	140,584
Total comprehensive income for the year		—	—	—	9,547	9,547
Equity settled share-based payments	21	—	—	1,050	—	1,050
Dividends paid		—	—	—	(2,975)	(2,975)
At 31 March 2016		7,437	85,702	2,300	52,767	148,206

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2014		7,437	85,702	770	49,489	143,398
Total comprehensive income for the year		—	—	—	(3,294)	(3,294)
Equity settled share-based payments	21	—	—	480	—	480
At 31 March 2015		7,437	85,702	1,250	46,195	140,584

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2016

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Net cash flow from operating activities	24	23,888	10,446
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		668	4,434
Purchases of property, plant and equipment		(4,798)	(5,727)
Purchases of intangible fixed assets		(150)	—
Investment in JVs and associates		(4,113)	(1,700)
Net cash used in investing activities		(8,393)	(2,993)
Cash flows from financing activities			
Interest paid		(166)	(782)
Dividends paid		(2,975)	—
Repayment of obligations under finance leases		(205)	(312)
Repayment of borrowings		—	(5,000)
Net cash used in financing activities		(3,346)	(6,094)
Net increase in cash and cash equivalents		12,149	1,359
Cash and cash equivalents at beginning of year		6,884	5,525
Cash and cash equivalents at end of year		19,033	6,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

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 138. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 14 to 21. These financial statements are presented in sterling, which is the currency of the primary economic environment in which the Group operates.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below.

The following accounting standards, interpretations and amendments have been adopted by the Group in the current year:

- Amendments to the following standards:
 - IAS 19 'Employee benefits'
 - Improvements to IFRSs (2010-2012)
 - Improvements to IFRSs (2011-2013)

The Group has considered the above new standards and amendments and has concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements.

The following accounting standards, interpretations and amendments have been issued by the IASB but had either not yet been adopted by the European Union or were not yet effective in the European Union at 31 March 2016:

- IAS 1 (amended) 'Presentation of financial statements'
- IAS 16 (amended) 'Property, plant and equipment'
- IAS 27 (amended) 'Separate financial statements'
- IAS 28 (amended) 'Investments in associates and joint ventures'
- IAS 38 (amended) 'Intangible assets'
- IAS 41 (amended) 'Agriculture'
- IFRS 9 'Financial Instruments'
- IFRS 10 (amended) 'Consolidated financial statements'
- IFRS 11 (amended) 'Joint arrangements: accounting for acquisitions of interests in joint operations'
- IFRS 12 (amended) 'Disclosure of interest in other entities'
- IFRS 14 'Regulatory deferral accounts'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'
- Improvements to IFRSs (2012-2014)

None of these new and amended standards have been adopted early by the Group and none of the new and amended standards are likely to have a significant impact on the Group's future results. The Group has made initial assessments of the impact of IFRS 15 and no material quantitative impact is expected. The Group will perform a detailed review of its significant contracts to ensure that the impact and effect of the new standard is fully understood and implemented in advance of the effective date.

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 pages 36 to 41.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to the reporting date each year. Control is achieved where the Company has the power over the investee, is exposed or has rights to variable return from its involvement with the investee and has the ability to use its power to affect its returns.

Where relevant, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Other items

Other items have been separately identified to provide a better indication of the Group's underlying business performance. They are not considered to be 'business as usual' items and have a varying impact on different businesses and reporting periods. They have been separately identified as a result of their magnitude, incidence or unpredictable nature.

These non-underlying items are presented as a separate column within their related consolidated income statement category. Their separate identification results in the calculation of an underlying profit measure in the same way as it is presented and reviewed by management.

Items that may give rise to classification as non-underlying include, but are not limited to, restructuring items, the amortisation of acquired intangible assets, significant rectification and remediation costs on completed contracts, movements in the valuation of derivative financial instruments and certain non-recurring legal and consultancy costs. Restructuring items include income and expenses arising from major Group restructuring activities including redundancy costs, onerous contract and lease provisions and asset gains and impairments.

Further details of other 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

1. Significant accounting policies continued

The consolidated income statement includes the Group's share of the JVs and associates profit less losses while the Group's share of the net assets of the JVs and associates is shown in the consolidated balance sheet.

Goodwill

The Group recognises goodwill at cost less accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately as a loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisition is recognised immediately in the consolidated income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of sales taxes, rebates and discounts, after eliminating revenue within the Group.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below).

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Construction contracts

Revenue represents the gross value of work performed (including retentions) during the reporting period and is normally determined by qualified management assessment, taking into account customer certifications to date.

The general principles for profit recognition are as follows:

- Revenues on contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably.
- Provision is made for total losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.
- Variations are included in forecast contract revenues when it is considered probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.
- Incentive payments are included in forecast contract revenues when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payment can be reliably measured.
- Claims receivable are recognised as income when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim, and the amount that it is probable will be accepted by the customer can be measured reliably.
- Rectification work which is reasonably foreseeable is provided for as a cost of the contract and taken into account when assessing its overall profitability. Claims for rectification arising after the end of a contract and which have not been provided for are recognised as losses as they arise.

When determining whether a contract's outcome can be estimated reliably, management considers a number of indicators including the stage of completion of the contract to provide assurance over the reliability of costs to complete, cumulative cash received and agreed certifications, the inherent risk in certain industry sectors and whether certain contract milestones have been satisfied.

All costs relating to contracts are recognised as expenses in the period in which they are incurred, except where they relate to future activity on a contract, in which case they are recognised as an asset provided it is probable that they will be recovered. Where the outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent that contract costs incurred are expected to be recovered.

Percentage of completion is determined by reference to the contract costs incurred to date (the proportion that estimated total contract costs are accounted for by contract costs incurred for work performed to date). Only those contract costs that reflect work performed are included in costs incurred to date.

1. Significant accounting policies continued

Total expected contract costs are initially determined by the estimating function during the contract tender process. At launch, responsibility for the contract is handed over to the commercial function (consisting of qualified quantity surveyors) which, on an ongoing basis, reassesses the expected contract costs as the contract progresses, taking into account the risks identified in contract risk registers.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Regular monthly contract reviews form an integral part of the contract forecasting procedures.

Leases

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

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

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

Retirement benefit obligations

The Group operates two defined contribution pension schemes and costs of these schemes are charged to the income statement in the period in which they are incurred.

The Group has a defined benefit pension scheme which is now closed. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high quality corporate bond, less the fair value of the scheme assets.

The cost of providing benefits recognised within operating costs in the income statement and the defined benefit obligations is determined at the reporting date by independent actuaries, using the projected unit credit method.

Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. These are determined based on future changes in tax rates that have been enacted rather than simply future changes that have been proposed but not enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

1. Significant accounting policies continued

Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are declared, appropriately authorised and no longer at the discretion of the Company.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, and plant and machinery are currently stated at cost in the balance sheet. Depreciation on buildings is included within operating costs.

Depreciation is provided on other property, plant and equipment to write off the cost of each asset over its estimated useful life at the following rates:

Freehold buildings	1 per cent straight-line
Long leasehold buildings	Shorter of 1 per cent straight-line or lease term
Plant and machinery	10 per cent straight-line
Fixtures, fittings and office equipment	10 per cent written down value
Computer equipment	20 per cent straight-line
Motor vehicles	25 per cent written down value
Site safety equipment	20 per cent straight-line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is included within operating costs.

Intangibles

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets acquired through acquisitions arise as a result of applying IFRS 3, which requires the separate recognition of intangible assets from goodwill.

Other acquired intangible assets include software costs.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

	Amortisation period
Customer relationships	10 years
Brands	25 years
Know-how	10 years
Software costs	7 years

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

1. Significant accounting policies continued

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.

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.

Derivative financial instruments

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

2. Critical accounting judgements and estimates

The preparation of financial statements under IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Assumptions and estimates are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

The following items are those that management considers to be critical due to the level of judgement and estimation required:

Revenue and profit recognition

Recognition of revenue and profit is based on judgements made in respect of the ultimate profitability of a contract. Such judgements are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in work scope, the contractual terms under which the work is being performed, including the recoverability of any unagreed income from variations and the likely outcome of discussions on claims, costs incurred and external certification of the work performed.

The Group has appropriate internal control procedures over the determination of each of the above variables to ensure that profit take as at the balance sheet date and the extent of future costs to contract completion are reasonably and consistently determined and subject to appropriate review and authorisation.

Impairment of goodwill and other non-current assets

Goodwill is tested at least annually for impairment, along with the intangible assets and other assets of the Group's cash-generating units. The Group's investment in its Indian joint venture has also been reviewed for impairment.

Determining whether goodwill or other non-current assets are impaired requires an estimation of the value in use of the business being tested for impairment and of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, taking into account the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process, and a suitable discount rate in order to calculate present value. The discount rates used are based on the Group's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant cash-generating unit.

The carrying amount of goodwill at the balance sheet date was £54,712,000 and of intangible assets arising from acquisitions was £3,953,000 (2015: £6,573,000). The carrying value of the Group's investment in the Indian joint venture was £4,468,000 (2015: £4,802,000) at the balance sheet date.

Disclosure of other (non-underlying) items

The Group has presented certain items of a one-off and material nature as non-underlying items in the income statement and notes to the consolidated financial statements. These items have been disclosed because the directors view their presentation as relevant to the understanding of the Group's underlying financial performance. Judgement is required to determine which items are disclosed as one-off. Inclusion within this category is restrictive and is applied consistently.

One-off items before tax recognised in the year ended 31 March 2016 were £3,568,000 (2015: £8,502,000).

Retirement benefit obligations

The Group's defined benefit pension scheme has been valued in accordance with IAS 19 'Employee benefits'. The benefit obligation is calculated using a number of assumptions including increases in pension benefits, mortality rates and inflation and the future investment returns from the scheme's assets. The present value of the benefit obligations is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date.

The scheme's assets are valued at market rates at the balance sheet date. 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 £14,602,000 (2015: £16,477,000).

Of the items discussed above, revenue and profit recognition (including the assessment of the remedial costs for the Leadenhall building in the prior year) represents the key source of estimation uncertainty.

3. Revenue and segmental analysis

Revenue

An analysis of the Group's revenue is as follows:

	2016 £000	2015 £000
Revenue from construction contracts	239,360	201,535
Total revenue	239,360	201,535
Other operating income	666	403
Interest received (note 7)	16	7
Total income	240,042	201,945

Segmental results

Following the adoption of IFRS 8, the Group has identified its operating segments with reference to the information regularly reviewed by the executive committee (the chief operating decision maker ('CODM')) to assess performance and allocate resources. On this basis the CODM has identified one operating segment (construction contracts) which in turn is the only reportable segment of the Group.

The constituent operating segments have been aggregated as they have businesses with similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics. Given that only one operating and reporting segment exists, the remaining disclosure requirements of IFRS 8 are provided within the consolidated income statement and balance sheet.

Revenues by product group

All revenue is derived from construction contracts and related assets.

Geographical information

The Group's revenue from external customers is detailed below:

	2016 £000	2015 £000
Revenue by destination:		
United Kingdom	230,614	194,974
Republic of Ireland and mainland Europe	8,746	5,459
Other countries	–	1,102
	239,360	201,535

All revenue originated from the United Kingdom and all non-current assets of the Group are located in the United Kingdom.

Information about major customers

Included in Group revenue is £37,388,000 and £24,433,000 relating to two major customers, which individually contributed to more than 10 per cent of Group revenue in the year ended 31 March 2016. In the prior year, Group revenue included £43,075,000 relating to one major customer, which individually contributed to more than 10 per cent of Group revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

4. Operating costs

	2016 £000	2015 £000
Raw materials and consumables (including subcontractor costs)	127,027	109,717
Staff costs (note 6)	60,596	53,975
Other operating charges	31,863	22,499
Amortisation of other intangible assets (note 12)	138	137
Operating lease expense:		
— plant and machinery	1,354	1,354
— other	1,669	1,650
Depreciation (note 13):		
— owned property, plant and equipment	3,593	3,442
— property, plant and equipment held under finance leases	100	180
— investment property	—	10
Other operating income	(666)	(403)
Operating costs before other items	225,674	192,561
Other items (note 5)	3,568	8,502
	229,242	201,063
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	17	17
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	143	148
— audit-related assurance services	15	35
— other assurance services	25	—
— taxation compliance services	—	39
— other taxation advisory services	—	52

Fees payable to KPMG LLP (2015: Deloitte 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 £52,000 in respect of other assurance services provided to its Indian joint venture.

5. Other items

	2016 £000	2015 £000
Amortisation of acquired intangible assets (note 12)	2,620	2,620
Fair value of derivative financial instruments (note 20)	948	(118)
Contract remedial costs	—	6,000
Other items before tax	3,568	8,502
Tax on other items	(1,237)	(1,784)
Other items after tax	2,331	6,718

Amortisation of acquired intangible assets represents the amortisation of customer relationships which were identified on the acquisition of Fisher Engineering in 2007. These relationships will be fully amortised within the next two years.

A non-cash loss on derivative financial instruments of £948,000 was recognised in relation to the movement in fair values of foreign exchange contracts which will reverse when the underlying contract matures in the following year. The fair value of these derivatives is primarily a function of exchange rate fluctuations between sterling and the euro. The loss for the year of £948,000 is partly due to the increased number of foreign exchange contracts taken out by the Group as a result of increased contract activity with the Republic of Ireland, reflecting an improving market position.

The contract remedial costs in the prior year related to the programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. They were treated as non-underlying costs in accordance with the Group's stated policy. This work is now substantially complete and the actual costs of the programme are consistent with the non-underlying charge of £6,000,000 which was recorded in 2014/15. Notwithstanding this, discussions remain ongoing between the Group and the other parties involved to determine where the ultimate liability for the programme costs should reside. Similar to 2014/15, no account has been taken of possible future cost recoveries from third parties, as these cannot be recognised under IFRS.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 82.

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

	2016 Number	2015 Number
Production and site	1,204	1,119
Sales and administration	98	93
	1,302	1,212

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	52,825	46,824
Social security costs	5,724	5,227
Other pension costs	2,047	1,924
	60,596	53,975

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

7. Net finance expense

	2016 £000	2015 £000
Finance income	(16)	(7)
Finance expense	261	457
	245	450

8. Taxation

a) The taxation (charge)/credit comprises:

	2016 £000	2015 £000
Current tax		
UK corporation tax	(1,607)	(512)
Adjustments to prior years' tax provisions	(127)	(154)
	(1,734)	(666)
Deferred tax (note 19)		
Current year (charge)/credit	(159)	573
Impact of reduction in future years' tax rates	523	—
Adjustments to prior years' provisions	327	428
	691	1,001
	(1,043)	335

b) Tax reconciliation

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

	2016 £000	2015 £000
Profit/(loss) before tax	9,643	(191)
Tax on (profit)/loss on ordinary activities at standard UK corporation tax rate	(1,929)	40
Expenses not deductible for tax purposes	(63)	(136)
Tax effect of share of results of JVs and associates	(53)	29
Unprovided deferred tax movement	279	128
Adjustments to prior years' provisions	200	274
Rate differences	523	—
	(1,043)	335

Corporation tax was calculated at 20 per cent (2015: 21 per cent) of the estimated taxable result for the year.

9. Dividends

	2016 £000	2015 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2015 of 0.5p per share (2014: nil)	1,487	—
Interim dividend for the year ended 31 March 2016 of 0.5p per share (2015: nil)	1,487	—
	2,975	—

The directors are recommending a final dividend in respect of the financial year ended 31 March 2016 of 1.0p per share, which will amount to an estimated dividend payment of £2,974,000. If approved by the shareholders at the annual general meeting on 6 September 2016, this dividend will be paid on 16 September 2016 to shareholders who are on the register of members at 19 August 2016. This dividend is not reflected in the balance sheet as at 31 March 2016 as it is subject to shareholder approval.

10. Earnings per share

Earnings per share is calculated as follows:

	2016 £000	2015 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	8,600	144
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	10,931	6,862

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	297,503,587	297,503,587
Effect of dilutive potential ordinary shares	1,715,818	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	299,219,405	297,503,587
Basic earnings per share	2.89p	0.05p
Underlying basic earnings per share	3.67p	2.31p
Diluted earnings per share	2.87p	0.05p
Underlying diluted earnings per share	3.65p	2.31p

	2016 £000	2015 £000
Reconciliation of earnings		
Net profit attributable to equity holders of the parent company	8,600	144
Other items	2,331	6,718
Underlying net profit attributable to equity holders of the parent company	10,931	6,862

Further details of other items are provided in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

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 (2015: 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 (2015: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2016.

Management considers that no reasonably possible change in the key assumptions would cause the goodwill to fall below its carrying value at 31 March 2016.

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
Cost			
At 1 April 2014 and 1 April 2015	39,000	883	39,883
Additions	—	150	150
At 31 March 2016	39,000	1,033	40,033
Amortisation			
At 1 April 2014	29,807	231	30,038
Charge for the year	2,620	137	2,757
At 1 April 2015	32,427	368	32,795
Charge for the year	2,620	138	2,758
At 31 March 2016	35,047	506	35,553
Carrying amount			
At 31 March 2016	3,953	527	4,480
At 31 March 2015	6,573	515	7,088

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 2014 and 31 March 2016	25,800	3,200	9,600	400	39,000
Amortisation					
At 1 April 2014	16,747	3,200	9,600	260	29,807
Charge for the year	2,580	—	—	40	2,620
At 1 April 2015	19,327	3,200	9,600	300	32,427
Charge for the year	2,580	—	—	40	2,620
At 31 March 2016	21,907	3,200	9,600	340	35,047
Net book value					
At 31 March 2016	3,893	—	—	60	3,953
At 31 March 2015	6,473	—	—	100	6,573

Amortisation of acquired intangible assets is included in the consolidated income statement as part of operating costs and is classified as other items (see note 5).

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13. Property, plant and equipment (including investment property)

	Investment property £000	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 2014	6,197	66,184	31,466	1,935	1,480	107,262
Additions	—	62	5,211	1,292	62	6,627
Disposals	(6,197)	(215)	(887)	—	(587)	(7,886)
At 1 April 2015	—	66,031	35,790	3,227	955	106,003
Additions	—	122	3,989	783	91	4,985
Disposals	—	(275)	(1,810)	—	(589)	(2,674)
At 31 March 2016	—	65,878	37,969	4,010	457	108,314
Accumulated depreciation						
At 1 April 2014	2,327	3,444	21,307	1,238	948	29,264
Charge for the year	10	527	2,762	185	148	3,632
Disposals	(2,337)	—	(716)	—	(446)	(3,499)
At 1 April 2015	—	3,971	23,353	1,423	650	29,397
Charge for the year	—	525	2,755	322	91	3,693
Disposals	—	(12)	(1,658)	—	(468)	(2,138)
At 31 March 2016	—	4,484	24,450	1,745	273	30,952
Carrying amount						
At 31 March 2016	—	61,394	13,519	2,265	184	77,362
At 31 March 2015	—	62,060	12,437	1,804	305	76,606

The net book value of the Group's plant and machinery includes £802,000 (2015: £1,174,000) of assets held under finance leases.

In the prior year, the Group sold its sole investment property in Leeds for a gross consideration of £3,830,000. This resulted in a small loss on disposal after taking into account transaction costs.

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
Composite Metal Flooring Limited — manufacturer of metal decking	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.

14. Interests in JVs and associates continued

JSW Severfield Structures Limited is registered in India. During the year, the Group did not make any further investments in the joint venture (2015: £1,700,000). As a result of the loss of £319,000 recorded during the year, the Group's investment in the Indian joint venture of £4,468,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2017/18 to 2019/20. The calculations assume a long-term growth rate of 1.5 per cent (2015: 1.5 per cent) from 2020/21 onwards and a pre-tax discount rate of 10 per cent (2015: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2016 (2015: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment.

On 16 November 2015, the Group completed its investment in a 50% share of Composite Metal Flooring Limited ('CMF') which has been accounted for as a joint venture. The total consideration for the investment is £7,039,000, which consists of an initial payment of £4,126,000 (including transaction costs of £126,000), an additional payment of £413,000 (made in early 2016/17) following agreement of the final working capital position and a further £2,500,000 which is payable over the next five years subject to certain conditions.

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 1 April 2014	—	3,315	3,315
Net assets acquired	—	1,700	1,700
Losses retained	—	(213)	(213)
At 1 April 2015	—	4,802	4,802
Net assets acquired	5,326	1,713	7,039
Losses retained	—	(230)	(230)
At 31 March 2016	5,326	6,285	11,611

The Group's share of the retained loss for the year of JVs and associates is made up as follows:

	Fabsec Limited £000	JSW Severfield Structures Limited £000	Composite Metal Flooring Limited £000	Total £000
Share of results	—	(319)	89	(230)

Summarised financial information in respect of the Group's JVs and associates is as follows:

	Fabsec Limited £000	JSW Severfield Structures Limited £000	Composite Metal Flooring Limited £000	2016 £000	2015 £000
Current assets	1,137	26,753	4,446	32,336	28,868
Non-current assets	334	24,671	2,225	27,230	26,081
Current liabilities	(165)	(34,939)	(2,299)	(37,403)	(32,111)
Non-current liabilities	(2,159)	(9,922)	(779)	(12,860)	(15,993)
Net assets	(853)	6,563	3,593	9,303	6,845
Group's share of net assets	(213)	3,282	1,797	4,866	3,688
Revenue	543	39,667	3,855	44,065	42,365
(Loss)/profit after tax	—	(638)	178	(460)	181
Group's share of loss after tax	—	(319)	89	(230)	(213)

There were no contingent liabilities or capital commitments (2015: none) associated with the Group's JVs and associates.

15. Inventories

	2016 £000	2015 £000
Raw materials and consumables	3,233	4,075
Work-in-progress	2,061	692
	5,294	4,767

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YEAR ENDED 31 MARCH 2016

16. Construction contracts

	2016 £000	2015 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in trade and other receivables	45,013	60,440
Amounts due to construction contract customers included in trade and other payables	(500)	(5,074)
	44,513	55,366
Contract costs incurred plus recognised profits less recognised losses to date	288,444	356,840
Less: progress billings received	(243,931)	(301,474)
	44,513	55,366

17. Trade and other receivables

	2016 £000	2015 £000
Amounts due from construction contract customers (note 16):		
— Current amounts receivable in respect of progress billings	40,697	55,130
— Retentions due within one year	3,217	3,599
— Retentions due after one year	1,099	1,711
Total	45,013	60,440
Other receivables	517	626
Prepayments and accrued income	4,611	3,219
Amounts due from JVs and associates	601	245
	50,742	64,530

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 52 days (2015: 79 days). No interest is charged on receivables.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Before accepting any new customer, the Group uses an external credit rating agency to assess the potential customer's credit quality and defines credit limits by customer. It is Group policy that adequate credit insurance is taken out on all customers to manage the exposure that may arise as the contractual work proceeds. Accordingly, no bad debt provisions are held or expenses incurred. The Group's executive risk committee reviews situations where adequate credit insurance on the Group's customers cannot be purchased in the present economic climate as required.

Due to the nature of the business involving applications for payment, contractually overdue amounts within trade and other receivables are limited to retentions. The Group has rigorous procedures in place for monitoring and obtaining settlement of retentions in a prompt manner.

Overdue retentions at 31 March 2016 were £490,000 (2015: £230,000).

18. Trade and other payables

	2016 £000	2015 £000
Trade creditors	25,835	32,255
Other taxation and social security	6,694	3,562
Other creditors and accruals	22,282	17,515
Payments in advance (note 16)	500	5,074
	55,311	58,406

Other creditors and accruals includes the outstanding purchase consideration for CMF and the remaining contract remedial costs associated with the programme of bolt replacement works at the Leadenhall building (see note 5). Other creditors and accruals in the prior year included the Leadenhall contract remedial costs.

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 43 days (2015: 58 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.

	2016 £000	2015 £000
Deferred tax liabilities	(6,301)	(7,615)
Deferred tax assets	4,516	5,492
	(1,785)	(2,123)

Deferred tax is disclosed in the balance sheet as follows:

	2016 £000	2015 £000
Deferred tax liabilities	(2,885)	(3,993)
Deferred tax asset — trading losses	1,100	1,870
	(1,785)	(2,123)

	Excess capital allowances £000	Acquired intangible assets £000	Retirement benefit obligations £000	Trading losses £000	Other timing differences £000	Total £000
At 1 April 2014	(6,387)	(1,838)	2,506	1,780	(218)	(4,157)
Credit/(charge) to income statement	86	524	(106)	90	407	1,001
Credit to equity	—	—	894	—	139	1,033
At 1 April 2015	(6,301)	(1,314)	3,294	1,870	328	(2,123)
Credit/(charge) to income statement	179	524	(116)	(727)	308	168
Effect of change in tax rate	572	39	(21)	(43)	(24)	523
(Charge)/credit to equity	—	—	(384)	—	31	(353)
At 31 March 2016	(5,550)	(751)	2,773	1,100	643	(1,785)

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19. Deferred tax liabilities continued

The UK corporation tax rate is set to reduce from 20 per cent to 19 per cent with effect from 1 April 2017 and to 18 per cent with effect from 1 April 2020. As these changes were substantively enacted on 26 October 2015, they have been used to calculate closing deferred tax balances as appropriate. The tax losses on which a deferred tax asset has been recognised do not expire. Deferred tax assets are recognised for tax loss carry-forwards to the extent that the utilisation of the related tax benefit through future taxable profits is probable. In determining the amounts of deferred tax assets to be recognised, management uses historical profitability information and, if relevant, forecasted operating results, based on approved budgets and forecasts, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations.

At the reporting date the Group had unrecognised tax losses from operations of £3,947,000 (2015: £5,437,000).

20. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while optimising the return to stakeholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The board reviews the capital structure of the Group on a semi-annual basis. As part of this review, it considers the cost of capital and the risks associated with each class of capital. The Group monitors capital using the following indicators:

i) Gearing ratio

	2016 £000	2015 £000
Cash and cash equivalents	19,033	6,884
Unamortised debt arrangement fees	210	273
Finance leases	(589)	(794)
Net funds	18,654	6,363
Equity	148,206	140,584
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 plus share of post-tax results from JVs and associates 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.

	2016 £000	2015 £000
Underlying operating profit	13,686	8,974
Share of results of JVs and associates	(230)	(213)
	13,456	8,761
Capital employed:		
Shareholders' equity	148,206	140,584
Cash and cash equivalents	(19,033)	(6,884)
Borrowings	589	794
Net funds (for ROCE purposes)	(18,444)	(6,090)
Retirement benefit obligations (net of deferred tax) (note 29)	11,829	13,183
Acquired intangible assets (note 12)	(3,953)	(6,573)
	137,638	141,104
Average capital employed	139,372	142,509
Return on capital employed	9.7%	6.1%

20. Financial instruments continued

Categories of financial instruments

	Carrying value	
	2016 £000	2015 £000
Financial assets		
Cash and cash equivalents	19,033	6,884
Amounts due from construction contract customers (note 16)	45,013	60,440
Derivative financial instruments	—	118
Unamortised debt arrangement fees	210	273
Financial liabilities		
Trade creditors (note 18)	(25,835)	(32,255)
Other creditors and accruals (note 18)	(22,282)	(17,515)
Derivative financial instruments	(830)	—
Finance leases	(589)	(794)

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.

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20. Financial instruments continued

Credit risk

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors. The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by the general macroeconomic conditions. The Group does not have significant concentration of risk in respect of amounts due from construction contract customers at the reporting date with them being spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 March 2016 were £4,316,000 (2015: £5,310,000).

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts. In addition, before accepting any new customer adequate credit insurance is taken out as reported in note 17. Where credit insurance is difficult to acquire, the executive risk committee determines the appropriate exposure for the Group to take with a customer.

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with customers so as to ensure that potential issues that could lead to the non-payment of retentions are addressed as soon as they are identified.

Amounts outstanding from construction contract customers are due with reference to the payment terms for each particular contract but the majority would be receivable within four months from the end of the reporting period. Amounts due for settlement after 12 months are disclosed in note 17.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the board.

The Group generates cash through its operations and aims to manage liquidity by ensuring that it will always have sufficient financing facilities to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Forecast and actual cash flow is continuously monitored.

The Group has a £25,000,000 revolving credit facility ('RCF') with HSBC Bank plc and Yorkshire Bank which matures in July 2019.

This facility includes an accordion facility of £20,000,000, which allows the Group to increase the aggregate available borrowings to £45,000,000 at the Group's request. The facility is subject to certain covenants including the cover of interest costs and the ratio of net debt to EBITDA.

As at 31 March 2016, £25,000,000 (2015: £25,000,000) of this facility was not drawn but available. Up to £10,000,000 of this facility is available by way of an overdraft.

In accordance with IFRS 7, the following tables detail the Group's remaining contractual maturity for its financial liabilities.

	Carrying value £000	Less than 3 months £000	Maturity analysis			Total £000
			3 months to 1 year £000	1-2 years £000	2-5 years £000	
Liabilities – 2016						
Trade and other payables	48,117	45,201	2,006	730	180	48,117
Financial liabilities — finance leases	589	45	135	180	229	589
Financial liabilities — derivatives	830	830	—	—	—	830
	49,536	46,076	2,141	910	409	49,536
Liabilities – 2015						
Trade and other payables	49,770	43,408	5,799	272	291	49,770
Financial liabilities — finance leases	794	70	135	180	409	794
	50,564	43,478	5,934	452	700	50,564

20. Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in credit risks described above, in foreign currency exchange rates and interest rates. The Group has entered into certain derivative financial instruments to manage its exposure to foreign currency risk.

Market risk exposures are monitored and are supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group seeks to minimise the effects of currency risks by using derivative financial instruments when appropriate to hedge these risk exposures against contracted sales. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 £000	2015 £000	2016 £000	2015 £000
Euro	(427)	(149)	1,132	942
US dollar	(3)	—	117	605
	(430)	(149)	1,249	1,547

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	
	2016 £000	2015 £000	2016 £000	2015 £000
Profit or loss and equity	(11)	(61)	1,136	501

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.

At 31 March 2016, the Group had forward exchange contracts held for the sale of 16.2m euros (2015: 7.7m euros) at an average exchange rate of 1.343 euros/£ (2015: 1.326 euros/£) which mature within 12 months of the year-end.

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20. Financial instruments continued

Interest rate risk management

The Group is exposed to interest rate risk as described under the borrowings paragraph earlier in this note. The Group does not currently hedge any of its interest rate exposure.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the gross amount of liability outstanding at balance sheet date was outstanding for the whole period. A 0.5 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5 per cent higher and all other variables were held constant, the Group's profit for the year ended 31 March 2016 and the Group's equity at that date would decrease by £nil (2015: £nil). If the £25,000,000 facility is fully utilised the exposure increases to £125,000. This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

21. Share-based payments

The Group operates a share-based incentive scheme open to all employees of the Group although the current intention is that only the Company's executive directors (being both board directors and certain members of the executive committee) and selected senior employees will participate in the scheme. These awards will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a three-year period. Further details are given in the directors' remuneration report on pages 76 to 88.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £727,000 for the year (2015: £480,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.67 per share. Three outstanding awards had been granted to 31 March 2016:

- During the period ended 31 March 2014 the remuneration committee granted 2,183,779 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 2013 to 31 March 2016. The following vesting schedule applies:

Underlying EPS performance for year ended 31 March 2016	% of award vesting
Equal to less than 2.15p	0%
Equal to 4.87p or better	100%
Between 2.15p and 4.87p	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	£0.48*
Exercise price	nil
Expected volatility (using historic performance)	98%
Risk-free rate	2.7%
Dividend	1.0p
Actual life	three years

* Granted on 5 June 2013.

21. Share-based payments continued

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £207,000 (2015: £229,000).

- During the year ended 31 March 2015 the remuneration committee granted 2,198,382 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 2014 to 31 March 2017. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2017	% of award vesting
Equal to less than 3.23p	0%
Equal to 6.45p or better	100%
Between 3.23p and 6.45p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.55*
Exercise price	nil
Expected volatility (using historic performance)	76%
Risk-free rate	2.7%
Dividend	1.0p
Actual life	three years

* Granted on 4 June 2014.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £167,000 (2015: £251,000).

- During the year ended 31 March 2016 the remuneration committee granted 2,328,798 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2015 to 31 March 2018. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2018	% of award vesting
Equal to less than 4.30p	0%
Equal to 6.45p or better	100%
Between 4.30p and 6.45p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.70*
Exercise price	nil
Expected volatility (using historic performance)	74%
Risk-free rate	1.0%
Dividend	1.0p
Actual life	three years

* Granted on 17 June 2015.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £353,000 (2015: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2016 Number	2015 Number
Outstanding at the beginning of the year	6,170,645	5,420,362
Granted during the year	2,328,798	2,198,382
Lapsed during the year	(1,900,893)	(1,448,099)
Vested during the year	—	—
Outstanding at the end of the year	6,598,550	6,170,645

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21. Share-based payments continued

Save As You Earn share option plan ('Sharesave')

The plan, which was established in 2014/15 and expires in 2024/25, 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% from the then market price. At the end of the 2014/15 Sharesave scheme in 2017/18 those options will become exercisable for a period of six months. A charge of £323,000 (2015: £nil) was recognised in the current period in relation to the 2014/15 Sharesave scheme.

Reconciliation of share awards outstanding under the Sharesave plan are as follows:

	2016 Number	2015 Number
Outstanding at the beginning of the year	—	—
Granted during the year	3,929,593	—
Lapsed during the year	(215,537)	—
Vested during the year	(4,583)	—
Outstanding at the end of the year	3,709,473	—

22. Share capital

	2016 £000	2015 £000
Issued and fully paid:		
297,503,587 ordinary shares of 2.5p each (2015: 297,503,587 ordinary shares of 2.5p each)	7,437	7,437

There are no share options outstanding as at 31 March 2016 (2015: nil).

23. Other reserves

	Share-based payment reserve £000	Other reserves £000	Total £000
At 1 April 2014	631	139	770
Share-based payments charge	480	—	480
At 1 April 2015	1,111	139	1,250
Share-based payments charge	1,050	—	1,050
At 31 March 2016	2,161	139	2,300

The movement in the share-based payment reserve represents the share-based payment charge of £1,050,000 (2015: £480,000) (see note 21).

24. Net cash flow from operating activities

	2016 £000	2015 £000
Operating profit from continuing operations	9,888	259
Adjustments:		
Depreciation of property, plant and equipment (note 13)	3,693	3,622
Depreciation of investment property (note 13)	—	10
Gain on disposal of property, plant and equipment	(137)	(46)
Amortisation of intangible assets (note 12)	2,758	2,757
Movements in pension scheme (note 29)	(573)	(528)
Share of results of JVs and associates (note 14)	230	213
Share-based payments (note 21)	1,050	480
Movement in valuation of derivatives	948	(118)
Operating cash flows before movements in working capital	17,857	6,649
(Increase)/decrease in inventories	(527)	1,075
Decrease/(increase) in receivables	13,725	(4,206)
(Decrease)/increase in payables	(6,221)	7,893
Cash generated from operations	24,834	11,411
Tax paid	(946)	(965)
Net cash flow from operating activities	23,888	10,446

25. Analysis of net funds

	2016 £000	2015 £000
Cash and cash equivalents	19,033	6,884
Unamortised debt arrangement fees	210	273
Financial liabilities — finance leases	(589)	(794)
	18,654	6,363

26. Capital commitments

	2016 £000	2015 £000
Contracted for but not provided in the financial statements	728	—

27. Contingent liabilities

Liabilities have been recorded for the directors' best estimate of uncertain contract positions, known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no liability is recorded where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation. The Group also has contingent liabilities in respect of other issues that may have occurred, but where no claim has been made and it is not possible to reliably estimate the potential obligation.

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 2016 these amounted to £15,000,000 (2015: £15,000,000). The Group has also given performance bonds in the normal course of trade.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

28. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2016 and 2032.

The total future minimum lease rentals are as follows:

	2016 £000	2015 £000
Minimum lease rentals due:		
— Within one year	1,113	1,140
— After one year and within five years	3,192	3,656
— After five years	11,016	11,553
	15,321	16,349

The Group also leases certain items of plant and machinery and vehicles whose total future minimum lease rentals are as follows:

	2016 £000	2015 £000
Minimum lease rentals due:		
— Within one year	1,216	1,272
— After one year and within five years	2,237	2,128
— After five years	41	39
	3,494	3,439

The Group as lessor

Property rental income earned on owned properties during the year was £152,000 (2015: £211,000). The properties held have committed tenants for the next one to five years. All operating lease contracts contain market review clauses in the event that the lessees exercise the options to renew. The lessees do not have an option to purchase the property at the expiry of the lease period.

As at the balance sheet date the Group had contracted with tenants for the following future minimum lease payments:

	2016 £000	2015 £000
— Within one year	142	172
— After one year and within five years	158	313
— After five years	79	212
	379	697

29. Retirement benefit obligations

Defined contribution schemes

The Group operates two defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £1,796,000 (2015: £1,644,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2016, contributions of £307,000 (2015: £266,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group has a defined benefit scheme which is now closed to new members and no defined benefit membership rights will accrue under the scheme.

The scheme exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The present values of the scheme liabilities are calculated using a discount rate determined by reference to corporate bond yields; if the return on scheme assets is below this rate, it will create a plan deficit. The Group holds a significant proportion of growth assets (bonds, gilts and equities) to leverage the return generated by the scheme.
Interest risk	A decrease in the corporate bond interest rate will increase the scheme liabilities, although this will be partially offset by an increase in the return on the scheme's assets.
Longevity risk	The present values of the scheme liabilities are calculated by reference to the best estimate of the mortality of scheme participants which reflect continuing improvements in life expectancy. An increase in the life expectancy of the scheme participants will increase the scheme's liabilities.
Salary risk	The present values of the defined benefit scheme liabilities are calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the scheme participants will increase the scheme's liabilities.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 5 April 2014 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2016 %	2015 %
Key assumptions used:		
Discount rate	3.5	3.2
Inflation (RPI)	3.0	2.9
Future pension increases	2.9	2.8

When considering mortality assumptions a male life expectancy to 85 at age 65 has been used for the year ended 31 March 2016 (2015: 85).

Impact on scheme liabilities of changes to key assumptions:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 4.3%
Rate of mortality	Increase by one year	Increase by 3.3%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2016 £000	2015 £000
Interest cost	1,233	1,407
Interest income	(723)	(898)
	510	509

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 £12,678,000 (2015: £13,980,000).

The actual return on scheme assets was a gain of £298,000 (2015: £2,414,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

29. 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:

	2016 £000	2015 £000
Present value of defined benefit obligations	(37,601)	(38,958)
Fair value of scheme assets	22,999	22,481
	(14,602)	(16,477)

The major categories of scheme assets as a percentage of the total scheme assets are as follows:

	2016 %	2015 %
Equities	25.8	21.3
Bonds and gilts	56.8	61.3
Cash	4.9	6.2
Property	10.5	9.2
Other	2.0	2.0
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately 6 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 7 per cent being fixed.

Movements in the present value of defined benefit obligations were as follows:

	2016 £000	2015 £000
At start of year	(38,958)	(32,395)
Interest cost	(1,233)	(1,407)
Actuarial gains/(losses)	1,727	(5,988)
Benefits paid	863	832
At end of year	(37,601)	(38,958)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were losses of £nil (2015: £nil), gains of £1,330,000 (2015: losses of £5,624,000) and gains of £397,000 (2015: losses of £364,000) respectively.

Movements in the fair value of scheme assets were as follows:

	2016 £000	2015 £000
At start of year	22,481	19,862
Interest income	723	898
Actuarial (losses)/gains	(427)	1,517
Employer contributions	1,083	1,037
Benefits paid	(861)	(833)
At end of year	22,999	22,481

The Group expects to contribute £91,000 (2015: £88,000) per month to its defined benefit pension scheme in the year to 31 March 2017.

29. Retirement benefit obligations continued

History of experience of gains and losses:

	2016	2015	2014	2013*	2011
Experience (losses)/gains on scheme assets (£000)	(427)	1,517	(515)	961	243
Percentage of scheme assets	(1.8%)	6.7%	(2.6%)	5.0%	1.4%
Experience losses/(gains) on scheme liabilities (£000)	397	(364)	(105)	424	(512)
Percentage of the present value of scheme liabilities	1.1%	(0.9%)	(0.3%)	1.4%	(1.9%)
Total amount recognised in the consolidated statement of comprehensive income (£000)	1,300	(4,471)	(1,261)	(2,824)	(1,369)
Percentage of the present value of scheme liabilities	3.5%	(11.5%)	(3.9%)	(9.1%)	(5.1%)

* Represents the 15-month period ended 31 March 2013.

The weighted average period over which benefits are expected to be paid, or the duration of the liabilities, is currently 17 years.

30. Related party transactions

The remuneration of the directors is provided in the audited part of the directors' remuneration report on page 82.

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:

	2016 £000	2015 £000
Short-term employee benefits	1,358	1,190
Contributions into pension schemes	116	93
	1,474	1,283

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 and members of the executive committee.

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 £120,000 (2015: £162,000). The amount due to Fabsec at 31 March 2016 was £116,000 (2015: £69,000).

During the year the Group has contracted with and purchased services from Composite Metal Flooring Limited ('CMF') amounting to £382,000 (2015: £nil). The amount due from and to CMF at 31 March 2016 was £101,000 (2015: £nil) and £266,000 (2015: £nil) 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 £557,000 (2015: £596,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2016 was £500,000 (2015: £245,000).

FIVE YEAR SUMMARY

	2016 £000	2015 £000	2014 £000	2013 [†] £000	2011 £000
Results					
Revenue	239,360	201,535	231,312	318,256	267,778
Underlying* operating profit/(loss)	13,686	8,974	7,621	(19,218)	14,193
Underlying* profit/(loss) before tax	13,211	8,311	4,025	(21,532)	10,117
Non-underlying items before tax	(3,568)	(8,502)	(8,082)	(7,326)	(3,335)
Profit/(loss) attributable to equity holders of Severfield plc	8,600	144	(2,640)	(23,127)	5,822
Assets employed					
Non-current assets	149,265	145,078	147,650	154,871	156,940
Net current assets/(liabilities)	16,837	16,565	14,243	(32,060)	(3,059)
Non-current liabilities	(17,896)	(21,059)	(18,495)	(20,410)	(21,583)
Net assets	148,206	140,584	143,398	102,401	132,298
Key statistics					
Earnings per share:					
Basic — underlying*	3.67p	2.31p	0.88p	(10.78p)	4.19p
Basic	2.89p	0.05p	(0.89p)	(13.49p)	3.39p
Diluted — underlying*	3.65p	2.31p	0.88p	(10.78p)	4.19p
Diluted	2.87p	0.05p	(0.89p)	(13.49p)	3.39p
Dividends per share	1.50p	—	—	1.50p	5.00p
Dividend cover (times) — underlying* basis	2.4	—	—	(13.8)	1.6
Share price — high	73.25p	72.00p	65.50p	114.26p	173.60p
— low	52.75p	53.50p	38.00p	35.40p	78.08p

Key statistics for 2013 and 2011 have been restated to reflect the 7:3 rights issue in April 2013.

* The basis of stating results on an underlying basis is set out on page 101.

† Represents the 15-month period ended 31 March 2013.

FINANCIAL CALENDAR

Preliminary announcement of full-year results
 Publication of annual report
 Annual general meeting
 Announcement of interim results (provisional)

15 June 2016
 July 2016
 6 September 2016
 22 November 2016

COMPANY BALANCE SHEET

AT 31 MARCH 2016

	Note	2016 £000	2015 £000
Fixed assets			
Tangible assets	2	59,607	60,022
Intangible assets		528	515
Investments	3	94,494	100,659
		154,629	161,196
Current assets			
Debtors — amounts falling due within one year	4	42,810	48,094
Cash at bank and in hand		3,300	—
		46,110	48,094
Creditors — amounts falling due within one year	5	(89,189)	(100,907)
Net current liabilities		(43,079)	(52,813)
Total assets less current liabilities		111,550	108,383
Capital and reserves			
Share capital		7,437	7,437
Share premium		85,702	85,702
Other reserves		2,150	1,100
Profit and loss account		16,261	14,144
Equity and total shareholders' funds		111,550	108,383

The financial statements were approved by the board of directors on 15 June 2016 and signed on its behalf by:

Ian Lawson
Chief executive officer

Alan Dunsmore
Group finance director

Severfield plc
Registered in England No: 1721262

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2016

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2015	7,437	85,702	1,100	14,144	108,383
Total comprehensive income for the year	—	—	—	5,092	5,092
Equity settled share-based payments	—	—	1,050	—	1,050
Dividends paid	—	—	—	(2,975)	(2,975)
At 31 March 2016	7,437	85,702	2,150	16,261	111,550
	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2014	7,437	85,702	620	8,323	102,082
Total comprehensive income for the year	—	—	—	5,821	5,821
Equity settled share-based payments	—	—	480	—	480
At 31 March 2015	7,437	85,702	1,100	14,144	108,383

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

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 Company transitioned from previous UK GAAP to FRS 101 for all periods presented. Details of adjustments arising on transition can be found in note 8.

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. The profit of the parent company for the financial year amounted to £5,061,000 (2015: £5,683,000).

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 85 and in notes 6 and 21 to the consolidated financial statements.

Investment properties

Investment properties are stated at cost less provision for impairment. Depreciation is charged annually at 1 per cent on a straight-line basis.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amounts owed by subsidiary undertakings

The Company holds intercompany loans with subsidiary undertakings which are repayable on demand. None of these loans are past due nor impaired. The carrying value of these loans approximates their fair value.

Intercompany guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

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 2015	64,040	—	19	64,059
Additions	—	339	14	353
Disposals	(275)	—	—	(275)
At 31 March 2016	63,765	339	33	64,137
Depreciation				
At 1 April 2015	4,018	—	19	4,037
Charge for the year	500	5	—	505
Disposals	(12)	—	—	(12)
At 31 March 2016	4,506	5	19	4,530
Net book value				
At 31 March 2016	59,259	334	14	59,607
At 31 March 2015	60,022	—	—	60,022

The Company's freehold and long leasehold land and buildings includes those which are occupied and used by some of the Company's subsidiary undertakings (investment properties). The rental income from these assets in the current year was £504,000 (2015: £504,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

3. Investments

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures and associated undertakings, including their country of incorporation, as at 31 March 2016 is disclosed below. All of these had a reporting period ended 31 March 2016, except where indicated.

Name of undertaking	Incorporated in
100% owned by Severfield plc	
Severfield (UK) Limited	England and Wales
Severfield (NI) Limited	Northern Ireland
Atlas Ward Holdings Limited	England and Wales
Watson Steel Structures Limited	England and Wales
Rowen Structures Limited	England and Wales
Steelcraft Erection Services Limited	England and Wales
Engineering Construction Training Limited	England and Wales
Severfield Reeve Properties Limited	England and Wales
Severfield Reeve Projects Limited	England and Wales
Severfield Reeve International Limited	England and Wales
Severfield Mauritius Limited	Mauritius
100% owned by Atlas Ward Holdings Limited	
Severfield (Design & Build) Limited	England and Wales
Atlas Ward EBT Limited	England and Wales
100% owned by Severfield Reeve Projects Limited	
Leeds 27 Limited	England and Wales
50% owned by Severfield plc	
Composite Metal Flooring Limited*	England and Wales
50% owned by Severfield Mauritius Limited	
JSW Severfield Structures Limited	India
25% owned by Severfield plc	
Fabsec Limited*	England and Wales

*companies with a reporting period ended 31 December 2015.

3. Investments continued

	2016 £000	2015 £000
Investment in subsidiaries	73,746	86,950
Investment in joint ventures	20,748	13,709
	94,494	100,659

Investment in subsidiaries

	£000
Cost	
At 1 April 2015	107,150
Liquidation of dormant companies	(13,204)
At 31 March 2016	93,946
Provision for impairment	
At 1 April 2015 and 31 March 2016	20,200
Net book value	
At 31 March 2016	73,746
At 31 March 2015	86,950

During the year, the Company liquidated a dormant company resulting in a loss on disposal of £587,000, representing the historical investment in the company of £13,204,000 offset by the waiver of the associated intercompany creditor of £12,617,000.

Investment in joint ventures

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

JSW Severfield Structures Limited is registered in India. During the year, the Company did not make any further indirect investments in the joint venture (2015: £1,700,000). The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

As a result of the loss of £319,000 recorded during the year, the Company's investment in the Indian joint venture of £13,709,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2017/18 to 2019/20. The calculations assume a long-term growth rate of 1.5 per cent (2015: 1.5 per cent) from 2020/21 onwards and a pre-tax discount rate of 10 per cent (2015: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2016 (2015: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment; however, the achievement of the forecasts is dependent on the move to a sustainable profit position.

On 16 November 2015, the Company completed its investment in a 50% share of CMF Limited which has been accounted for as a joint venture. The total consideration for the investment is £7,039,000, which consists of an initial payment of £4,126,000 (including transaction costs of £126,000), an additional payment of £413,000 (made in early 2016/17) following agreement of the final working capital position and a further £2,500,000 which is payable over the next five years subject to certain conditions.

	£000
Cost	
At 1 April 2015	13,709
Additions	7,039
At 31 March 2016	20,748

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

4. Debtors — amounts falling due within one year

	2016 £000	2015 £000
Other debtors	1,191	1,202
Amounts owed by subsidiary undertakings	40,835	45,321
Amounts due from JVs and associates	101	—
Corporation tax recoverable	683	1,571
	42,810	48,094

5. Creditors — amounts falling due within one year

	2016 £000	2015 £000
Bank borrowings	—	3,864
Other creditors and accruals	9,687	4,266
Amounts owed to subsidiary undertakings	74,981	87,352
Deferred tax liability (note 6)	4,521	5,425
	89,189	100,907

In the prior year, borrowings represented an element of the Group's revolving credit facility from HSBC Bank plc and Yorkshire Bank jointly as disclosed in note 20 to the consolidated financial statements. The facility is available until July 2019.

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.

	2016 £000	2015 £000
Deferred tax liabilities	(5,151)	(5,764)
Deferred tax assets	630	339
	(4,521)	(5,425)

Deferred tax — movement for the year

	Excess capital allowances £000	Other timing differences £000	Total £000
At 1 April 2014	(5,816)	107	(5,709)
Current year credit	52	93	145
Credit to equity	—	139	139
At 1 April 2015	(5,764)	339	(5,425)
Current year credit	62	284	346
Credit to equity	—	31	31
Effect of change in tax rate	551	(24)	527
At 31 March 2016	(5,151)	630	(4,521)

The UK corporation tax rate is set to reduce from 20 per cent to 19 per cent with effect from 1 April 2017 and to 18 per cent with effect from 1 April 2020. As these changes were substantively enacted on 26 October 2015, they have been used to calculate closing deferred tax balances as appropriate.

7. Contingent liabilities

The Company has provided an unlimited multilateral guarantee to secure any bank overdrafts and loans of all other Group companies. At 31 March 2016 these amounted to £nil (2015: £nil).

8. Transition to FRS 101 from UK GAAP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2016, the comparative information presented in these financial statements for the year ended 31 March 2015 and in the preparation of an opening FRS 101 balance sheet at 1 April 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting ('UK GAAP'). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and performance is set out in the following table and the accompanying notes.

Reconciliation of equity

	1 April 2014 £000	31 March 2015 £000
Total equity under UK GAAP	107,513	113,616
Deferred tax on industrial buildings	(5,431)	(5,371)
Deferred tax on share-based payments	—	138
Total adjustment to equity	(5,431)	(5,233)
Total equity under FRS 101	102,082	108,383

The adjustments in the table above arise on the recalculation of deferred tax based on the approach required by IAS 12. The restatement of £5,233,000 of the 31 March 2015 balance represents a debit of £5,431,000 to retain earnings at 1 April 2014, a credit of £60,000 to the income statement for the year ended 31 March 2015 and a credit of £138,000 to other comprehensive income for the year ended 31 March 2015.

Reconciliation of profit for the year ended 31 March 2015

	31 March 2015 £000
Amount under UK GAAP	5,623
Deferred tax adjustments	60
Amount under FRS 101	5,683

Adjustment arises as a result of changes in the income tax expense from the recognition of deferred tax liabilities (see reconciliation of equity above).

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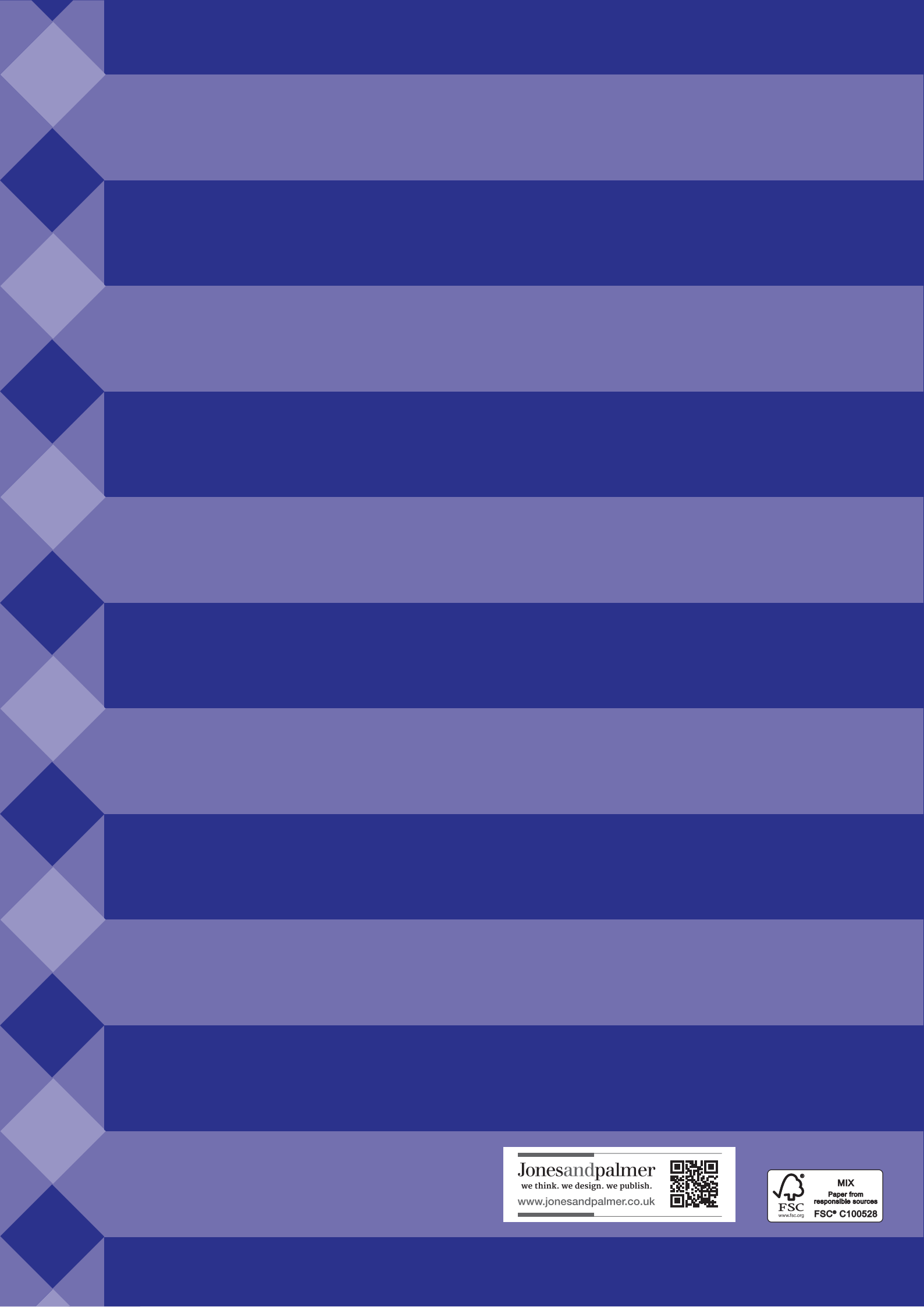
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