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Severfield-Rowen Plc

Annual Report 2003

Market Leaders in Structural Steel

1
Severfield-Reeve Structures' production facility at Dalton

Severfield-Rowen Plc
Holding company

Severfield-Reeve Structures Ltd.
Steel fabrication

Rowen Structures Ltd.
Steel fabrication

Watson Steel Structures Ltd.
Steel fabrication

Steelcraft Erection Services Ltd.
Steel erection

Severfield-Reeve International Ltd.
Overseas contracts

Severfield–Rowen Plc

is the largest specialist steelwork group in the UK, with an enviable reputation for performance and value.

Its main activity is the design, manufacture and erection of structural steelwork, with an extensive capability to undertake a wide variety of work.

2
Watson Steel Structures' site at Bolton

3
Rowen Structures' production facility at Sutton-in-Ashfield

Severfield–Reeve Projects Ltd.
Project managers of building contracts

Severfield–Reeve Properties Ltd.
Group property portfolio managers

Steel (U.K.) Ltd.
Non-trading

Tubemasters Ltd.
Fabrication of tubular steelwork

TGIS Ltd.
Non-trading

Surreal Ltd.
Non-trading

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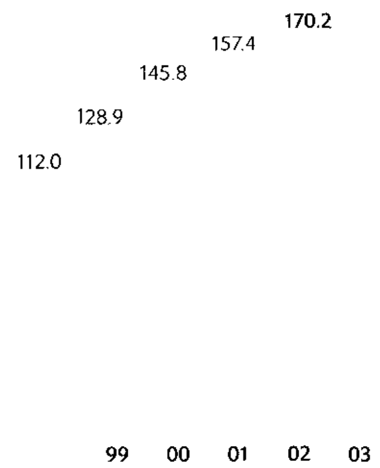
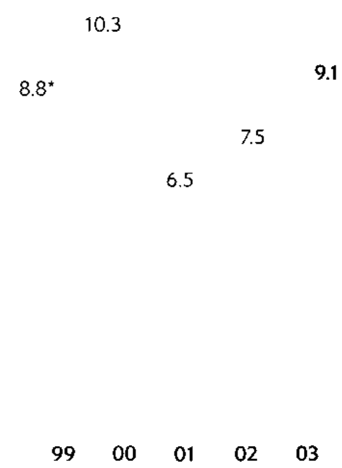
Croydon Centrale,
Croydon

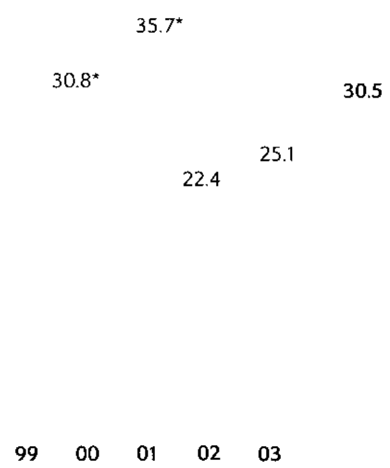
Financial Highlights



Turnover
(£ million)



Profit before Taxation
(£ million)
* Excluding exceptional items



Earnings per Share
(pence)
* Excluding exceptional items

Key Achievements 2003

- Turnover increased by 8.1% to £170.2m
- Group operating profit up 21.2% to £9.3m
- Group margins improved
- Dividend increased by 21.4% to 17.0p per share
- Cash balance at year end up to £17.2m
- Excellent order book at £180m
- Heathrow, Terminal 5 contract progressing well
- Second intumescent paint line constructed

Year ended 31 December 2003

Turnover £170.2m • **Profit Before Tax** £9.1m • **Taxation Charge** £3.0m

Dividends £3.4m • **Retained Profit** £2.7m • **Basic Earnings Per Share** 30.5p

Dividend Per Share 17.0p

Chairman's Statement

Introduction

The Group's results for 2003, which are slightly ahead of expectations, demonstrate a significantly improved profitability over the previous year and emphasise its market leading position.

The Group's figures are all the more notable taking into account the downturn in the London commercial property market and the uncertain economic environment of 2003. The already strong financial position of the Group, further enhanced by these results, places the Group at a demonstrable advantage over its peers in its marketplace. This is reflected in the recent award of the major structural steel package for the new Arsenal Football Stadium.

All core businesses of the Group performed profitably with the rationalisation and refocusing of Rowen early in the year being completed smoothly. The results include £640,000 of redundancy costs at Rowen.

Though the industry remains competitive, the directors view 2004 with confidence.

Overview

In 2003 the Group improved operating profits to £9.3million (2002: £7.7 million) on an increased turnover of £170.2 million (2002: £157.4 million). Profit before tax, after associated company losses, was £9.1 million (2002: £7.5 million) producing, after the tax charge of £3.0 million (2002: £2.5 million), increased earnings per share of 30.5p (2002: 25.1p).

The Group's financial position goes from strength to strength. Net assets increased to £40.7 million (2002: £37.7 million). With strong year end cash balances of £17.2 million (2002: £11.4 million), despite capital expenditure out of cash flow of £6.5million (2002: £8.9 million), the Group has no gearing.

The major contract at Heathrow, Terminal 5 played a material role in providing a bedrock of work for the Group, allowing the Group to concentrate on greater value added and higher margin work.

For the industry as a whole, 2003 was a year of continued challenges and margin pressure. This was highlighted by the downturn in the London commercial property market, traditionally a significant market for the sector. It is, however, a reflection of the Group's leading market and financial position that real progress has been made over 2002.

Once again each one of our core subsidiaries contributed positively to the Group results, these being Severfield–Reeve Structures based in Dalton, North Yorkshire, Rowen Structures based near Nottingham and Watson Steel Structures based near Bolton, Lancashire.

Severfield–Reeve Structures continued to perform very well, further underlining its deserved reputation as the premier fabricator in the UK where its Dalton site sets the standards for the industry as a whole. The Fabsec plate line and the intumescent paint line, now supplemented by a new second paint line, give range and depth to the Group's products and contributed significantly to value added performance.

Watson Steel Structures contributed to profitability ahead of expectations following the successful completion of its modernisation and upgrading programme.

Rowen Structures returned profits for the year despite the rationalisation and refocusing at the beginning of 2003 which saw redundancy costs of £640,000. It has now been successfully re-engineered as a specialist steel contractor and is performing a good service in that regard including fabrication of steel staircases for Heathrow, Terminal 5.

5
Heathrow, Terminal 5 roof

6
Selfridges Footbridge, Birmingham

7
Waste Treatment Facility, Arsenal, London

Dividend
Reflecting the Board's confidence in the future of the Group and its strong financial position, the Board is pleased to increase the full year dividend to 17.0p per share, which is covered 1.8 times by earnings. The final dividend of 10.75p per share (2002: 8.75p) is payable on 8 June 2004 to shareholders on the register on 14 May 2004.

Directors' Remuneration, Proposed new Share Strategy Plan and Annual Bonus Scheme
Following a thorough review of remuneration for the Executive Directors, undertaken with the benefit of independent expert advice, the Remuneration Committee has concluded that a Share Matching Plan combined with a new Annual Bonus Scheme should replace the existing Scheme.

The new proposals will be put forward for approval by the Shareholders at the forthcoming Annual General Meeting to be held on 4 June 2004 and, whilst fuller details are set out in the Remuneration Report, the proposals are in line with best practice and, in particular, the Combined Code requirements as well as the guidelines set out by the Association of British Insurers.

Nomination Committee
To complement the existing Audit and Remuneration Committees of the Group, the Company has constituted a Nomination Committee, the majority of whose members are independent non-executive directors.

The principal task of the Committee will be to deal with key appointments and related employment issues.

Outlook
The Group's current expectations are for a year of continual progress underpinned by the outstanding order book of £180 million.

The Board is resolved to continue its policy of carefully managed growth and prudent use of resources combined with focused capital investment with a particular emphasis on new value added areas of the business to enhance Group margins.

It is particularly gratifying to recognise the strength, expertise and loyalty of the Group's management and workforce. Without them, the Group could not achieve the Board's aim of maintaining the reputation of Severfield-Rowen as a centre of excellence for the industry.

The year has begun in line with our expectations and whilst the industry remains very competitive, the Board is looking forward to the remainder of the year with confidence.

Peter Levine
Chairman
12 May 2004

8
East Coast Main Line Bridge, Kings Cross, London

9
Heathrow, Terminal 5 roof

10
Waste Treatment Facility, Arsenal, London

Operational Review

Core Business Overview
The core businesses of the Group, Severfield–Reeve Structures, Watson Steel Structures and Rowen Structures, continued to trade profitably in 2003 despite the challenging market conditions. When viewed in the context of the industry as a whole, and the downturn in the London commercial property market, the results are particularly noteworthy.

Severfield–Reeve Structures
The business continued to enhance its reputation with a number of contracts undertaken in a wide variety of areas and on a number of projects, including:

- Rolls-Royce building in Glasgow for the manufacture of turbine blades
- Two large office developments in Manchester — Hardman Boulevard and Spinningfields
- Power station in Spalding, Lincolnshire
- Office development in Belgravia
- New waste treatment facility at Arsenal, North London
- State-of-the-art music, performing arts and media centre at Newcastle College
- New Sainsbury's in Belfast, Northern Ireland
- New warehouse for Pirelli Tyres, Carlisle
- Multi-storey car park at the world-famous Addenbrookes Hospital, Cambridge
- Two-storey office development for the Inland Revenue at Longbenton, Newcastle
- Retail and car park development at Fremlin Walk, Maidstone
- Three super hangars for the Integrated Aircraft Maintenance Facility at RAF St Athan, Vale of Glamorgan near Cardiff

The current year has commenced in line with expectations.

Apart from the ongoing Heathrow, Terminal 5 project for BAA where the work is divided as appropriate between our Group companies, new contracts for Severfield–Reeve Structures include:

- Twelve-storey commercial development on the old Spitalfields market site, London
- New Withington Diagnostic and Treatment Centre Hospital, for the NHS, South Manchester
- Six-storey retail development and transport interchange in Doncaster city centre, South Yorkshire

No. 1 Spinningfields Square, Manchester

- Specialist development of oil pipeline carrying racks on Sakhalin Island, Russian Federation
- New Hospital development at Blackburn Hospital, Lancashire
- Redevelopment of the Oval cricket ground's Vauxhall End stand, South London
- Three-storey retail development in the centre of Hemel Hempstead

During the year a second intumescent paint line was constructed and contributed to profitability. Focused capital investment and constant monitoring of overheads continue to be made to ensure that our market leadership and production efficiencies are maintained and that the business is kept cost-efficient and competitive.

Yet again the plate and intumescent paint lines continued to exceed the Board's expectations and are representative of the Group's market innovation. The fire engineered beam is continuing to be developed.

Rowen Structures

The year saw Rowen re-engineered and refocused as a specialist steelworker capable of manufacturing value added products for the Group. However, importantly for the Group, the valuable expertise that Rowen's employees have developed in key areas such as airport work has been retained and this specialist expertise is vital to the Heathrow, Terminal 5 contract and other work for BAA.

The contracts undertaken by Rowen in 2003 included:

- Redevelopment of the old Westminster Hospital into luxury flats
- Heathrow, Terminal 1 eastern extension baggage hall
- Heathrow, Terminal 3 Pier 5 segregation
- Gatwick, Pier 2 South Terminal segregation
- Gatwick, pier connector between Pier 3 and existing terminal

Contracts ongoing for 2004 include several projects for BAA at various UK airports.

Watson Steel Structures

During 2003 a further £900,000 was invested in buildings and plant and machinery to improve the production process. Results for the second full year of ownership of Watson were excellent in the context that the business, together with its valuable freehold land and buildings, had been purchased for a total of £2.5 million in late 2001.

The expertise of its workforce is renowned in the industry and Watson is invariably in contention where complex and heavily engineered structures are required.

Contracts performed in 2003 included:

- Extension to St Pancras station roof — for the Channel Tunnel Rail Link
- Elevated roadway — new access roadway for Dover docks
- Cheltenham Racecourse — multi-functional arena building
- Gogaburn Bridge, Edinburgh — access to new Royal Bank of Scotland HQ

New contracts for 2004 include:

- Channel Tunnel rail link works at St. Pancras station, London
- Arsenal Football Club Stadium and link bridges
- BAE fuel test facility at Filton, Bristol
- Gatwick Airport, Pier 6 connector; the world's longest over airport pedestrian bridge
- Stratford and Ebbsfleet railway stations, London — for the Channel Tunnel rail link
- Ongoing works at Heathrow Airport, Terminal 5 for BAA plc

With a full workload for 2004 Watson is on course for another successful year.

Steelcraft Erection Services

During 2003 Steelcraft continued to provide invaluable support to the Group and remains an integral part of the Group's success. Whilst dedicated to providing services only to the Group, Steelcraft is believed to be the largest single structural steel erection business in the UK.

Severfield–Reeve Projects

Although the results in 2003 for this non-core subsidiary, by its previous high standards, proved slightly disappointing principally due to the volume of work actually performed, indications are that work already secured for 2004 will enable it to have a substantially better year.

Organisational changes have recently been made to give added responsibility to the company's senior management with the intention of increasing motivation, personal performance and profitability.

The directors of Severfield-Reeve Projects are optimistic about the coming year and are confident that the company will continue to provide the Group with an ongoing profitable and reliable service.

Severfield-Reeve International

Our international subsidiary, which also looks after our Power and Petrochemical projects, both at home and overseas, continues to progress. We have successfully completed two projects in the year, these being a Power Plant in Spalding and a Chemical Process Plant in Hull.

We were also awarded a significant Oil and Gas project for Sakhalin Island, the Russian Federation, which will be completed in the coming year.

Whilst the international market remains difficult given the continued strength of sterling, we are confident that further opportunities will arise in the near future.

Conclusion

The Group remains the clear market leader, with each of our three core subsidiaries and their range of expertise and production being highly regarded within the industry. The Group has put in place a solid platform for success in the medium to long term and this is demonstrated by these results.

The excellent order book of the Group, including the ongoing Heathrow, Terminal 5 contract, reinforces its unrivalled position in an industry which overall is expected to continue to face competitive pressures over the short to medium term.

As ever, our efforts for 2004 remain focused on providing the best returns for our shareholders. This includes continuing with our efforts to ensure effective management control and efficiencies within our Group, whilst delivering to our customers the level of quality, service and commitment which they expect from the industry's market leader.

John Severs
Managing Director
12 May 2004

12
Elevated roadway, Dover

13
Newcastle College of Performing Arts, Newcastle upon Tyne

14
T5 Superstructure, Heathrow, London

Financial Review

Overview

The Group's results for the year ended 31 December 2003 show a profit before tax of £9.12 million on turnover of £170.15 million, increases of 21.3% and 8.1% respectively over that achieved in the previous year. This is an exceptional result in view of the uncertain conditions affecting our marketplace and is slightly ahead of market and management expectations. The Group has continued to strengthen its position as the market leader in terms of financial efficiency and productivity performance.

The basic earnings per share is 30.48p, an increase of 21.5% over 2002. Consequently, it is recommended that the total dividend for the year be increased by 21.4% to 17.0p per share, giving a dividend cover of 1.8 times.

It is particularly pleasing that the year ended with the Group having a gross cash balance of almost £17.2 million and with no gearing. Net assets increased by 7.7% to £40.7 million.

Operating Profit

The Group's operating profit increased by 21.2% to £9.32 million with operating margins increasing to 5.48% from the 4.89% achieved in 2002. In 2002 the Group's results first incorporated those of its two associated companies, Kennedy Watts Partnership Limited and Fabsec Limited, of which the Group owns 25.1% and 25% respectively. In 2003 the Group's share of these two companies' results amounted to a net operating loss of £142,000 thereby reducing the total profit before tax of the Group, after a net interest charge for the Group of £56,000, to £9.12 million, an increase of 21.3% over the previous year.

These results are also affected by a one-off charge in the first half of the year of £640,000 in relation to redundancy costs at Rowen Structures Limited as a consequence of its rationalisation and refocusing at that time.

Taxation

The tax charge of £2.96 million represents an effective tax rate of 32.45% on pre-tax profits for the year compared with 33.20% in the previous year. These effective rates are higher than the prevailing rate of 30% due to the adjustments made in respect of disallowable expenditure incurred during the year. In addition, no tax relief has been recognised in respect of the continuing losses incurred by Fabsec Limited.

Earnings Per Share

Basic earnings per share is 30.48p, an increase of 21.5% over the previous year. This calculation is based on the profit after taxation of £6,161,000 and 20,210,711 ordinary shares, being the weighted average of the number of shares in issue during the year.

The diluted earnings per share figure of 30.47p is not materially different from the basic calculation. This is calculated using the same profit figure and 20,219,657 ordinary shares, being the weighted average of the number of shares in issue during the year, allowing for the full exercise of any outstanding dilutive share options.

15
T5 Superstructure, Heathrow, London

16
Croydon Centrale, Croydon

Dividend

The Board is recommending a final dividend of 10.75p per share (2002: 8.75p) bringing the total dividend for the year to 17.0p per share. This total dividend represents a 21.4% increase over the dividend of 14.0p per share paid for 2002. This is in line with the basic earnings per share increase and maintains the total dividend cover at 1.8 times earnings, a level at which the Board remains comfortable and which it is confident of maintaining in the future.

The final dividend is payable on 8 June 2004 to shareholders on the register on 14 May 2004. The ex dividend date will be 12 May 2004.

Balance Sheet

The Group's balance sheet continues to strengthen with shareholders' funds increasing by £2.9 million to £40.7 million. This equates to a net asset value per share at 31 December 2003 of 200.6p, compared with 186.9p at the end of 2002.

The Group's balance sheet now has fixed assets totalling almost £32 million. Depreciation charged in the year amounted to over £2 million.

As in previous years, we have continued to invest in our business. Whilst lower than the level of recent years, capital expenditure during 2003 still amounted to almost £6.5 million. This included the building of a second intumescent paint line at Severfield–Reeve Structures Limited's production facility at Dalton at a cost of £1.2 million.

A valuation of the Group's land and buildings has recently been carried out, the result of which was materially in line with the carrying value of the assets in the balance sheet.

Associated Companies

During 2001 the Company acquired a 25% shareholding in Fabsec Limited, a company involved in the development of a bespoke and fire engineered beam made out of plate. This company holds the master intellectual property rights for these and the other Fabsec family of beams the world over. It also carries out marketing and promotion. The Group benefits from these functions whilst only contributing 25% towards overheads. Fabsec Limited is not to be confused with the Group's successful and profitable plate and intumescent paint lines at Dalton which produce the Fabsec and fire engineered beams under a perpetual, no royalty licence from Fabsec Limited.

Investment in Fabsec Limited has continued by way of further loans to that company in 2003. The total investment by the Group as at 31 December 2003 amounted to £491,000. At the moment, Fabsec is heavily involved in technical and market development and, therefore, the results for the year to 31 December 2003 show a loss for the period. The Group's 25% share of this loss amounted to £150,000.

The Group also owns a 25.1% shareholding in Kennedy Watts Partnership Ltd, a company involved in CAD/CAM steelwork design. The Group's share of the operating profit of Kennedy Watts reduces the net operating loss arising from associated companies to £142,000.

Financial Review
continued

Cash Flow

Management of the Group's cash continues to be of prime importance and is tightly controlled. It is therefore particularly pleasing to report that the Group ended the year with a record positive cash balance of £17.18 million.

During the year £17.64 million was generated from operating activities. Outflows of cash during the year included dividends paid of £3.01 million, corporation tax paid of £2.20 million and the purchase of fixed assets, net of sale proceeds received, of £5.79 million. As a result, the cash balance increased from the end of 2002 by £5.77 million.

Borrowings, represented primarily by amounts due on hire-purchase contracts, amounted to £1.42 million. Consequently, the Group had net funds available at the year end of £15.77 million, an increase of £6.61 million from the end of 2002.

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 and cost effective funding arrangements are maintained to finance current and planned future activities and to invest cash assets safely and profitably.

The Group remains committed to strong financial controls, cash management and prudent treasury policies.

Summary

The Group has had a very successful year with significant increases in turnover, profit before tax and the year end cash balance. It continues to improve its very healthy financial position and is well placed for future growth and cash generation.

Peter Davison
Finance Director
12 May 2004

20
Car Park at Addenbrookes Hospital, Cambridge

21
T5 Abutment, 1st Run Study, Dalton

22
No. 1 Spinningfields Square, Manchester

Directors and Advisers

Peter M. Levine MA (Oxon)
Non-Executive Chairman

John L. Severs
Managing Director

Peter F. Ellison
Deputy Managing Director

Peter J. Davison BA FCA
Finance Director

Peter A. Emerson
Managing Director,
Watson Steel Structures

Brian W. Hick
International Operations Director

Tom G. Haughey BA
Commercial Director

J. Keith Elliott BSc MIChE
Senior Non-Executive Director

John R. Featherstone FCA
Non-Executive Director

David P. Ridley FRICS
Non-Executive Director

Secretary and Registered Office
Peter Jeffrey Davison BA FCA
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Registered Number
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Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal Activity and Business Review

The principal activity of the Group continues to be the design, fabrication and erection of structural steelwork, specialist claddings and ancillary products. A review of the Group's progress during the year and of its future prospects is contained in the Chairman's Statement on pages 4 to 7, the Operational Review on pages 8 to 11, and the Financial Review on pages 12 to 16.

Results and Dividends

The profit for the year after taxation amounted to £6,161,000 (2002: £5,023,000), details of which are set out in the financial statements on page 35.

An interim dividend of 6.25p net per share (2002: 5.25p) was paid on 24 October 2003. The directors recommend a final dividend for the year of 10.75p net per share (2002: 8.75p), payable on 8 June 2004 to shareholders on the register on 14 May 2004. If the final dividend is approved, retained profits of £2,732,000 (2002: £2,206,000) will be transferred to reserves.

Fixed Assets

Details of changes in fixed assets are given in notes 9, 10 and 11 to the financial statements.

Directors

The present membership of the Board is stated on page 18. All directors served throughout the year. The directors and their families had the following beneficial interests in the share capital of the Company:

	31 December 2003 10p Ordinary Shares	Deferred share awards	Options	1 January 2003 10p Ordinary Shares	Deferred share awards	Options
P.M. Levine	101,420	–	–	73,420	–	–
J.L. Severs	1,151,251	15,133	–	1,099.691	48,693	–
P.F. Ellison	15,310	12,779	–	20,000	28,089	–
P.J. Davison	95,560	12,779	–	57,500	28,089	75,000
P.A. Emerson	9,310	12,779	–	6,000	28,089	–
B.W. Hick	25,593	6,390	–	25,593	6,390	–
T.G. Haughey	–	–	100,000	–	–	100,000
J.R. Featherstone	81,750	–	–	81,750	–	–
J.K. Elliott	79,514	–	–	79,514	–	–
D.P. Ridley	10,000	–	–	10,000	–	–

On 27 April 2004 the following 10p ordinary shares, originally awarded in 2001, became vested in certain directors pursuant to the 1999 Annual Deferred Bonus Share Scheme, as follows: J.L. Severs –15,133 ordinary shares, P.F. Ellison – 12,779 ordinary shares, P.J. Davison – 12,779 ordinary shares, P.A. Emerson – 12,779 ordinary shares and B.W. Hick – 6,390 ordinary shares.

Other than the above transactions there have been no changes in the directors' interests between the year end and 4 May 2004.

J.R. Featherstone will retire at the Annual General Meeting in accordance with the Articles of Association and will offer himself for re-election.

In accordance with the Combined Code, issued by the London Stock Exchange in June 1998, B.W. Hick and D.P. Ridley will also retire at the Annual General Meeting and offer themselves for re-election.

Directors' Report
continued

Executive Directors

J.L. Severs, 50, is one of the original founders of the Group. He has spent all his working life in the structural steel industry and has a great understanding of all the disciplines within the business. As Group Managing Director he maintains a 'hands-on' approach to the running of the Group and was instrumental in establishing the efficient layout of the production facilities at Dalton, Nottingham and Bolton. He continues to exert control over this important aspect of the Group's business. In addition, he is responsible for developing and maintaining close relationships with our key customers and suppliers.

P.F. Ellison, 50, joined the Group in 1993 as Managing Director of the Group's in-house erection company, Steelcraft Erection Services Ltd. He has spent his working life in the steel erection business and prior to joining the Group he ran his own erection company based in the Midlands. Since joining Steelcraft he has built up a company which is very important for the success of the Group with an unrivalled reputation for the efficient and safe erection of structural steelwork. In 1997 he was appointed Group Deputy Managing Director.

P.J. Davison, 48, joined the Group in 1988. He graduated from Lancaster University in 1977 and qualified as a Chartered Accountant in 1980 with KPMG. Prior to joining the Group he worked in the construction industry for the John E. Wiltshier Group, latterly as Chief Accountant and Company Secretary of their Scottish subsidiary. He was appointed Group Finance Director in 1990.

P.A. Emerson, 50, has worked for the past 30 years in the Specialist Contracting Industry, initially in the concrete contracting sector. He joined Rowen in 1984 as a quantity surveyor, rising to Deputy Managing Director in 1996. He was appointed Group Commercial Director in 1998. In December 2001 he was appointed to the key role of Managing Director of Watson Steel Structures Ltd.

B.W. Hick, 45, joined the Group in 1989 as a Senior Quantity Surveyor. He has had 28 years' experience in the structural steel industry including, prior to joining the Group, 8 years working in the Middle East and Africa. He was appointed Surveying Director of Severfield–Reeve Structures Ltd in 1992 and Managing Director of Severfield–Reeve International Ltd in 1997. Under his guidance the Group has been able to break into two significant market areas, both in the UK and overseas, being Power Generation and Petrochemical work. He was appointed Group Director responsible for international operations in 2000.

T.G. Haughey, 48, was appointed Group Commercial Director on 7 February 2002. He graduated in Social Sciences and Postgraduate Marketing from Strathclyde University, Glasgow in 1978. His career until joining the Group was within British Steel (latterly Corus) in commercial and business management roles, where his last position was Commercial Director of Corus Construction and Industrial. He has also held positions on the executive committees of Steel Construction Institute, UK Steel Association, Corus Asia and British Steel Joint Ventures in North America. His role is the development of strong customer focus and business process for the Group.

Non-Executive Directors

P.M. Levine, 48, graduated in jurisprudence from Trinity College, Oxford in 1977 and qualified as a solicitor in 1980 from when he specialised in international/corporate law. He was appointed a non-executive director and Deputy Chairman of the Company in 1993. On 22 April 1998 he was appointed Chairman. He is the Honorary Consul for the Republic of Kazakhstan in England, as well as being the Co-Chairman of the British–Kazakh Society. He is also chairman of both Imperial Energy Corporation PLC and the demolition contractors, Keltbray Group (Holdings) Limited.

J.R. Featherstone, 71, has been a non-executive director of the Company since 1988. He is a Chartered Accountant and chairman and director of several private companies.

J.K. Elliott, 61, was appointed a non-executive director of the Company on 21 October 1998, and was appointed to the role of Senior Independent Non-Executive Director in 2003. He retired in July 1998 from Bechtel, the international contracting organisation, where he was a partner in Bechtel Corporation and Senior Vice-President in charge of petroleum and chemical business, having worked there for 32 years.

D.P. Ridley, 61, was appointed on 14 June 2002 as a non-executive director of the Company. He previously held the Chairmanship of Faithful and Gould, the quantity surveyor and cost management consultants, which forms part of the W S Atkins Group of companies. He has a wealth of experience and contacts within a number of strategic sectors for the Group, including infrastructure and transportation.

Directors' and Officers' Liability

Directors' and Officers' liability insurance has been purchased during the year.

Significant Shareholdings

In addition to the directors' shareholdings on page 19, as at 4 May 2004 the Company had been notified of the following interests in excess of 3% of the issued share capital.

	10p Ordinary shares	%
Ruffer Investment Management	2,092,500	10.32
Artemis Investment Management	1,340,000	6.61
Framlington Investment Management	1,310,000	6.46
M & G Investment Management	1,306,060	6.44
Insight Investments	973,768	4.80
M.J. Reeve	824,137	4.07
Gartmore Investment Management	759,197	3.75
Standard Life Investment Management	733,938	3.62
Legal & General Investment Management	725,178	3.58
Rathbones	710,000	3.50

Directors' Report
continued

Share capital

Three resolutions are to be proposed at the forthcoming Annual General Meeting relating to or concerning Share Capital.

(i) The directors are requesting that their authority to allot shares be renewed. The maximum amount of relevant securities that may be allotted pursuant to the authority is £668,843 in nominal value (6,688,430 shares) representing approximately 33% of the Company's total share capital in issue as at 11 May 2004, being the latest practical date prior to the date of the Notice of Meeting. The Board has no present intention of exercising this authority, which will expire at the end of the 2005 Annual General Meeting, or on 3 September 2005, whichever is the earlier.

(ii) The directors' power to allot equity securities conferred by the Special Resolution of the Company passed on 1 June 2003 will expire at the conclusion of the Annual General Meeting to be held on 4 June 2004, unless otherwise varied, revoked or renewed. Your directors consider it desirable that this power, being a limited disapplication of pre-emption rights, should be renewed at the forthcoming Annual General Meeting, such authority to expire at the end of the 2005 Annual General Meeting, or on 3 September 2005, whichever is the earlier. Apart from rights issues, open offers and other pre-emptive issues, the aggregate nominal value of new shares for which power is being sought is not to exceed £101,340 (1,013,398 shares) representing 5% of the Company's issued share capital. The directors have no present intention of exercising this power but should any exercise be contemplated in the future they will have regard to the Investor Protection Committee guidelines.

(iii) The directors are requesting that at the forthcoming Annual General Meeting they are given the authority to buy, by way of market purchases, up to 10% of the issued share capital of the Company representing a maximum of 2,026,797 shares. The price to be paid will be no lower than 10p per share and no more than 5% above the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the 5 business days preceding the day on which the shares are purchased. Purchases would not be made in the close period preceding the announcement of the Company's interim or final results. This proposal does not indicate that the Company will purchase shares at any particular time or price, or imply any opinion on the part of the directors as to the market or other value of the Company's shares. This authority will expire at the end of the 2005 Annual General Meeting, or on 3 September 2005, whichever is the earlier. It is the present intention of the directors to seek a similar authority annually.

The total number of options to subscribe for equity shares outstanding at 11 May 2004, being the latest practical date prior to the date of the Notice of Meeting, is 136,500, representing 0.67% of the Company's total share capital in issue at that time.

The directors have no present intention of exercising this authority and will only do so at price levels which they consider to be in the interests of shareholders after taking account of the Group's overall financial position, and which would lead to a beneficial impact on the earnings per share of the Company.

Employee Information
Employees are regularly informed of matters concerning the performance and future developments of the Group.

The Board takes account of employees' interests when making decisions and suggestions from employees aimed at improving the Group's performance are welcomed.

Creditor Payment Policy
The Group's current policy concerning the payment of its trade creditors is to agree terms and conditions for its transactions with suppliers and to abide by those terms, subject to those terms and conditions being met by the supplier. At 31 December 2003 trade creditors of the Group represented 58 days of purchases (2002: 59 days). Creditor days for the Company are Nil (2002: Nil).

Disabled Persons
The Company has continued with its established policy of employing disabled persons where practicable and endeavours to ensure that they benefit from training and career opportunities in common with all employees. In the event that employees become disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

Health and Safety and the Environment
The Group is committed to achieving and maintaining high standards in health and safety and environmental performance. It is the Group's policy to comply with all laws, directives and regulations pertaining to its field of operation, and to act in a manner so as to minimise the effects of its operations on the environment. The Group is committed to working with the local authorities to ensure it complies with all permits and authorisations required to carry out its operations.

Auditors
On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors and signed on behalf of the Board.

P.J. Davison PJ Davison
Secretary
12 May 2004
Dalton Airfield Industrial Estate,
Dalton, Thirsk, North Yorkshire, YO7 3JN

Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those 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;
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance.

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions.

1. Directors

The Company is controlled through the Board of directors which comprises six executive and four non-executive directors, two of which, J.K. Elliott and D.P. Ridley, are considered as independent. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. J.K. Elliott has the role of senior independent non-executive director. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved for it and meets monthly. 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 strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. 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. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established four standing committees, all of which operate within defined terms of reference. The committees established are the Audit Committee, the Remuneration Committee, the Nomination Committee and the Health and Safety Committee. Trading companies are managed by separate boards of directors. Any matters of a material nature concerning the trading companies are reported to the Group Board of Directors on a monthly basis.

2. Directors' Remuneration

The Directors' Remuneration Report is set out on pages 27 to 32 of the financial statements.

3. 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.

P.M. Levine, J.L. Severs and P.J. Davison attended several meetings with analysts, institutional shareholders and retail investors in the year ended 31 December 2003, either at the time of the announcements of the Company's interim or final results or during visits to the Company's offices in North Yorkshire.

The Board has sought to use the Annual General Meeting to communicate with private investors and encourages their participation.

4. Financial Reporting

The performance and financial position of the Company are provided in the

Operational Review on pages 8 to 11 and the Financial Review on pages 12 to 16, together with the Chairman's Statement on pages 4 to 7 and the Directors' Report on pages 19 to 23. These enable the Board to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibilities for the financial statements are described on page 23.

Internal Control

The Board has applied Principle D.2 of the Combined code and an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which involves working closely with independent risk management consultants, has been established. This process has been in place for the full financial year and up to the date of the approval of these financial statements and is regularly reviewed by the Board. This process is in accordance with the guidance provided by the Turnbull Report.

The Board has formally acknowledged its overall responsibility for reviewing the effectiveness of internal control. It believes that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built in to the process.

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 with respect to the preparation of financial information and the safeguarding of assets. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives.

In carrying out its review of the effectiveness of internal control in the Group the Board has taken into consideration the following key features of the risk management process and system of internal control:

- Senior management from all key disciplines and subsidiary companies within the Group are involved in the process of risk assessment in order to identify and assess Group objectives, key issues and controls. A further review has been performed to identify those risks relevant to the Group as a whole. This assessment encompassed all aspects of risk including operational, compliance, financial and strategic. A risk register has been developed and will be updated on an ongoing basis and a control strategy has been determined for each of the significant risks.
- A risk management committee was created and it is the primary responsibility of this committee to identify, monitor and control the significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from line management and other sources on a regular basis. The risk management committee reports formally to the Audit Committee and the Board on a quarterly basis.
- The Group operates a comprehensive budgeting and financial reporting system which, as a matter of routine, compares actual results with budgets. Management accounts are prepared for each subsidiary company and the Group on a monthly basis. Material variances from budget are thoroughly investigated. In addition, a more detailed profitability forecast based on actual contracts secured is regularly prepared to monitor the performance of the main operating company of the Group as the year progresses.

  Cash flow forecasts are regularly prepared to ensure that the Group has adequate funds and resources for the foreseeable future.

  Standard financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements.

Corporate Governance
continued

Risks are identified and appraised through the annual process of preparing these budgets.

- Subsidiary company meetings 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.
- Safety, Health and Environmental risks are continually monitored at all sites and are reviewed on a monthly basis by senior management and on a quarterly basis by the Health and Safety Committee.

Steps have been taken to embed internal control and risk management into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention. This process is continuing to increase risk awareness throughout the Group.

Audit Committee

The Audit Committee comprises the non-executive directors and is chaired by J.K. Elliott. The committee has written terms of reference. Meetings are held not less than twice a year and additional meetings may be requested by the auditors.

Nomination Committee

The Nomination Committee was established during 2003 comprising the non-executive directors, with the exception of P.M. Levine, and is chaired by J.K. Elliott. The principal task of the committee is to deal with key appointments to the Board, and related employment matters.

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 the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Internal Audit

The directors have reviewed the need for an internal audit function and believe that the Group is not of sufficient size and complexity to require such a function.

Compliance Statement

The Company has been in full compliance with the provisions set out in Section 1 of the code throughout the accounting period ended 31 December 2003.

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has, therefore, been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Company has an established Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The Committee is composed of the non-executive directors, J.K. Elliott, J.R. Featherstone and D.P. Ridley, and is chaired by J.K. Elliott.

No director plays a part in any discussion about his own remuneration.

Remuneration Policy

The Remuneration Committee's policy is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre.

The remuneration of the non-executive directors is considered by the executive directors and reflects the time which they commit to the Company. Non-executive directors cannot participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme.

The major elements of the remuneration package for the executive directors are:

- Basic annual salary and benefits
- Annual bonus payments
- Share option incentives
- Pensions

It is intended in future years that share option incentives are superseded by the Share Matching Plan, as set out below.

Basic Salary

The level of basic annual salary and benefits is determined by the Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies. The companies used for comparison are chosen having regard to size, type of industry and the relative scale and complexity of the business.

Annual Bonus Payments

Bonuses for the executive directors have been calculated with reference to the profit before tax as disclosed in the audited financial statements of the Group, together with relative market performance. The bonus payments are not pensionable.

During 1999 an Annual Deferred Bonus Share Scheme was introduced. The level of bonus granted to the executive directors under this scheme was at the discretion of the Remuneration Committee.

Given the nature of the discretionary annual bonus payments which were linked to the respective performance of the Group, and the contribution of individual directors, the Committee believed this illustrated the relative importance placed on performance related remuneration.

Share Options

The Committee believes that share ownership by executives strengthens the link between their personal interests and those of shareholders. The Company has operated three share option schemes and options have been granted to executives periodically at the discretion of the Remuneration Committee. The grant of share options was not subject to fixed performance criteria. This was deemed to be appropriate at the time as it allowed the Committee to consider the performance of the Group and the contribution of the individual directors and illustrated the relative importance placed on performance related remuneration.

Proposed New Arrangements
Following a careful review of remuneration for executive directors undertaken with the benefit of advice from external expert consultants, the Remuneration Committee has concluded that a Share Matching Plan should be introduced in conjunction with new annual bonus arrangements. The Share Matching Plan has been designed to comply with the guidelines of the Association of British Insurers with whom we have consulted. Furthermore, major institutional shareholders of the Company have been contacted regarding these proposals and are supportive.

New Annual Bonus Arrangements
In the past annual bonuses for our executive directors have been determined under a "pooled profit" approach whereby a bonus pool was created equal to 5% of profit before tax. The bonus pool was then allocated across the executive directors at the discretion of the Remuneration Committee, taking into account individual performance. There was no minimum profit threshold above which a bonus pool was created. Furthermore, there was no cap on individual bonuses. In the past also, use has been made of the Company's Annual Deferred Bonus Scheme under which bonus monies have been applied in buying shares pursuant to conditional share awards made in favour of directors.

In place of the current annual bonus arrangements, it is proposed that annual bonuses will correlate directly with corporate performance using operating profit before tax as the benchmark. Actual bonus levels will be payable depending on the operating profit performance in relation to the budget set at the beginning of the financial year by the Board of Directors. Unlike the approach taken in the past, no bonuses will be paid unless a minimum level of profit of 95% of budget is achieved. Furthermore, there will be an individual limit to the maximum cash bonus that may be earned in any year of 150% of salary for the Chief Executive and 75% of salary for other executives.

Bonuses will be payable on the following bases:

Bonuses between 95% and 100% and between 100% and 120% of budget will be interpolated linearly.

There will continue to be flexibility on the part of the Remuneration Committee to determine the actual bonus levels that vest to individual directors, within the ranges shown in the table below. If, for example, operating profit is 100% of annual budget, then, as shown in the table, the bonus that may be earned by the Chief Executive could be between 50% and 100% of salary and for other directors between 10% and 40% of salary. The factors to be taken into account in making these judgements will include our assessment of the contribution to the financial results by each individual, the prevailing market conditions, e.g. budget performance in a difficult year being more highly rewarded than that in a good year, and both individual and collective contribution to the implementation of strategic initiatives which we anticipate will devolve profits in future years.

Operating Profit – % of Budget	**Cash Bonus Payable (% of base salary)**	
	Chief Executive	Other Directors
= <95%	0	0
100%	50%–100%	10%–40%
120%	100%–150%	40%–75%

Share Matching Plan

The Remuneration Committee has recently reviewed long-term incentive arrangements for executive directors, in conjunction with independent external advisers, taking into account recent developments in market practice and the latest guidelines of institutional shareholders. The Remuneration Committee concluded that the current arrangements no longer meet the Company's objectives nor fully comply with the current principles of best corporate practice. Accordingly, shareholders' approval is requested for the adoption of a new long-term incentive plan – the Severfield–Rowen Share Matching Plan (the "Plan") which, whilst open to all employees in the Severfield–Rowen Group, will be initially applied only to the executive directors. Following the adoption of the Plan, no further awards will be granted under the existing long-term arrangements although awards made in the past will remain exercisable on their current terms. In other words, this Plan will supersede all previous arrangements.

From 2005 executive directors (other than the Chief Executive who, due to his existing significant shareholding, will not participate in the Plan) will be required to invest at least one-quarter of their post-tax annual bonus in buying shares in the Company and may also invest such further parts of their bonus for the purposes of the Plan on a voluntary basis.

The aggregate investment would then be matched by the grant of a matching award under the Plan over shares in the Company with a value equal to the pre-tax value of the bonus invested in shares. An award consists of the right to acquire shares for nil payment.

A matching award under the Plan would normally only vest on the third anniversary of its grant to the extent that the performance condition (see below) has been satisfied, provided that the executive director is still employed by the Company and that the shares purchased by the executive director have been retained for this three-year period.

The initial awards made under the Plan will be based on a performance condition of earnings per share (EPS) growth targets, with no part of a matching award vesting unless the Company's EPS for the year end 2006 is 25% higher than the EPS for the year end 2003. Full vesting will require EPS for the year end 2006 to be 35% higher than EPS for the year end 2003.

As a compulsory requirement to invest the bonus in shares was not communicated to executives at the beginning of the 2003 financial year, in 2004 there will be no formal requirement to invest a proportion of annual bonus. Each executive director will have, instead, the opportunity to invest some or all of their bonus on a voluntary basis.

A more detailed explanation of the Plan and a summary of the Plan rules are contained in the Chairman's letter circulated to all shareholders with this Annual Report.

Share ownership guidelines

It is intended to introduce a policy whereby executive directors (other than the Chief Executive who as previously noted will not participate in the Plan) will be required to retain all shares acquired from matching awards that vest under the Plan until such times as the executive has built up a holding of such shares equivalent in market value (at the date of vesting) to the executive's base salary. Thereafter, the executive directors would be under a continuing obligation to maintain at least such a shareholding. The share ownership guidelines will not apply to shares bought from the proceeds of annual bonus.

Pensions

The Group contributes to each executive director's money purchase pension fund.

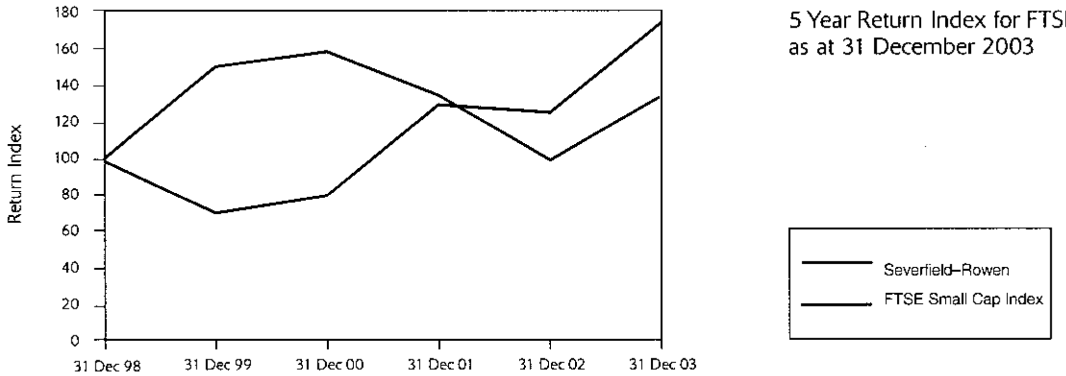
Service Contracts

The service contracts of executive directors run on a rolling basis and are no longer than twelve months' duration. Notice periods of twelve months are required to be given by all parties.

Directors' Remuneration Report
continued

Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. This index was chosen as it is the most relevant to the current size of Company. The graph is based on the change in value of a £100 investment over 5 years.



5 Year Return Index for FTSE Small Cap Index as at 31 December 2003

AUDITED INFORMATION

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

	2003 £000	2002 £000
Emoluments — salaries, bonus and taxable benefits	**1,460**	1,311
— fees	**147**	137
Money purchase pension contributions	**239**	228
Gains on exercise of share options	**63**	244
	1,909	1,920

Directors' Emoluments

Details of the directors' emoluments are as follows:

	Basic salary £000	Fees £000	Bonus £000	Taxable benefits £000	**2003 Total £000**	2002 Total £000
Executive						
J.L. Severs	275		250	26	**551**	493
P.F. Ellison	155		25	1	**181**	176
P.J. Davison	120		25	26	**171**	164
P.A. Emerson	175		25	12	**212**	184
B.W. Hick	120		25	1	**146**	143
T.G. Haughey	155		25	19	**199**	151
Non-Executive						
P.M. Levine		48			**48**	48
J.R. Featherstone		33			**33**	33
J.K. Elliott		33			**33**	33
D.P. Ridley		33			**33**	23
Aggregate emoluments	1,000	147	375	85	**1,607**	1,448

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

Directors' Pension Entitlements

The executive directors are members of the Group's money purchase pension schemes. Contributions paid by the Company in respect of these schemes in the year are as follows:

	2003 £000	2002 £000
J.L. Severs	**46**	43
P.F. Ellison	**39**	38
P.J. Davison	**37**	36
P.A. Emerson	**41**	38
B.W. Hick	**37**	36
T.G. Haughey	**39**	37
	239	228

Directors' Share Options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted or held by the directors.

Details of the options exercised during the year are as follows:

Name of director	Number of options	Exercise price	Market price at exercise date	Gains on exercise 2003 £000	Gains on exercise 2002 £000
P.J. Davison	20,000	67p	305p	**48**	85
P.J. Davison	55,000	312p	340p	**15**	–
P.F. Ellison	–	–	–	–	26
P.A. Emerson	–	–	–	–	113
B.W. Hick	–	–	–	–	20
	75,000			**63**	244

Details of the options outstanding at 31 December 2003 are as follows:

Name of director	1 January 2003	Granted in year	Exercised in year	**31 December 2003**	Exercise price	Date from which exercisable	Expiry date
P.J. Davison	20,000	–	(20,000)	**–**			
P.J. Davison	55,000	–	(55,000)	–			
T.G. Haughey	100,000	–	–	**100,000**	283p	19 April 2005	18 April 2009
	175,000	–	(75,000)	**100,000**			

The options are exercisable not less than three years from the date of grant and not more than seven years from that date.

Granting of these share options is not subject to fixed performance criteria.

The market price of the shares at 31 December 2003 was 352.5p and the range during the year was 207.5p to 360p.

Directors' Remuneration Report
continued

Annual Deferred Bonus Share Scheme

Under the terms of the Severfield–Rowen Plc 1999 Annual Deferred Bonus Share Scheme no deferred share awards (as defined in the Scheme Rules) were made in 2003.

Details of the Annual Deferred Bonus shares awarded to directors as at 31 December 2003 are as follows:

Name of director	Date of Deferred Share Award	Number of shares awarded as at 1 January 2003	Vested in year	Number of shares outstanding at 31 December 2003	Price per share paid by Trustees of scheme to acquire the shares
J.L. Severs:	29 March 2000	31,665	(31,665)	–	210p
	29 March 2000	1,895	(1,895)	–	217p
	26 April 2001	15,133	–	15,133	297p
		48,693	(33,560)	15,133	
P.F. Ellison:	29 March 2000	14,445	(14,445)	–	210p
	29 March 2000	865	(865)	–	217p
	26 April 2001	12,779	–	12,779	297p
		28,089	(15,310)	12,779	
P.J. Davison:	29 March 2000	14,445	(14,445)	–	210p
	29 March 2000	865	(865)	–	217p
	26 April 2001	12,779	–	12,779	297p
		28,089	(15,310)	12,779	
P.A. Emerson:	29 March 2000	14,445	(14,445)	–	210p
	29 March 2000	865	(865)	–	217p
	26 April 2001	12,779	–	12,779	297p
		28,089	(15;310)	12,779	
B.W. Hick:	26 April 2001	6,390	–	6,390	297p

The above shares are eligible to vest with the directors three years after the date of the award, subject to the Scheme Rules. On 27 April 2004 the shares which were awarded in April 2001 vested with the relevant directors.

Approval

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

J.K. Elliott

Senior non-executive director

12 May 2004

Independent Auditors' Report To the Members of Severfield-Rowen Plc

We have audited the financial statements of Severfield-Rowen Plc for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the reconciliation of net cash flow to movement in net funds, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Independent Auditors' Report
To the Members of Severfield-Rowen Plc
continued

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche LLP

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Leeds
12 May 2004

Consolidated Profit and Loss Account
For the year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover — continuing operations	1	**170,152**	157,418
Cost of sales		**(157,353)**	(146,030)
Gross profit		**12,799**	11,388
Distribution costs		**(610)**	(580)
Administration expenses		**(2,948)**	(3,196)
		9,241	7,612
Other operating income		**78**	78
Group operating profit — continuing operations	2	**9,319**	7,690
Share of associates' operating loss	11	**(142)**	(164)
		9,177	7,526
Interest payable and similar charges	4	**(56)**	(7)
Profit on ordinary activities before tax		**9,121**	7,519
Tax on profit on ordinary activities	5	**(2,960)**	(2,496)
Profit on ordinary activities after tax for the financial year		**6,161**	5,023
Dividends payable to equity shareholders	6	**(3,429)**	(2,817)
Profit retained, transferred to reserves	21	**2,732**	2,206

	Note	2003	2002
Earnings per share	7		
Basic		**30.48p**	25.08p
Diluted		**30.47p**	25.05p
Dividends per share			
Paid		**6.25p**	5.25p
Proposed		**10.75p**	8.75p
Total		**17.00p**	14.00p

Consolidated Balance Sheet
31 December 2003

	Note		2003 £000		2002 £000
Fixed assets					
Intangible assets	9		**170**		180
Tangible assets	10		**31,148**		28,069
Investments	11		**636**		629
			31,954		28,878
Current assets					
Stocks	12	**3,316**		5,742	
Debtors	13	**35,223**		32,571	
Cash at bank and in hand		**17,184**		11,417	
		55,723		49,730	
Creditors – amounts falling due within one year	14	**(44,120)**		(37,613)	
Net current assets			**11,603**		12,117
Total assets less current liabilities			**43,557**		40,995
Creditors – *amounts falling due* after more than one year	15		**(623)**		(1,240)
Provisions for liabilities and charges	16		**(2,279)**		(2,021)
			40,655		37,734
Capital and reserves					
Called up share capital	17		**2,027**		2,018
Share premium account	18		**9,411**		9,231
Merger reserve	19		**114**		114
Capital redemption reserve	20		**25**		25
Profit and loss account	21		**29,078**		26,346
Equity and total shareholders' funds			**40,655**		37,734

These financial statements were approved by the Board of Directors on 12 May 2004.
Signed on behalf of the Board of Directors

J.L. Severs Director

P.J. Davison Director

Company Balance Sheet
31 December 2003

	Note		2003 £000		2002 £000
Fixed assets					
Tangible assets	10		**17,307**		13,501
Investments	11		**1,683**		1,526
			18,990		15,027
Current assets					
Debtors	13	**4,278**		*13,410*	
Cash at bank and in hand		**82**		19	
		4,360		13,429	
Creditors – amounts falling due within one year	14	**(4,850)**		(10,663)	
Net current (liabilities)/assets			**(490)**		2,766
Total assets less current liabilities			**18,500**		17,793
Provisions for liabilities and charges	16		**(330)**		(167)
			18,170		17,626
Capital and reserves					
Called up share capital	17		**2,027**		2,018
Share premium account	18		**9,411**		9,231
Capital redemption reserve	20		**25**		25
Profit and loss account	21		**6,707**		6,352
Equity and total shareholders' funds			**18,170**		17,626

These financial statements were approved by the Board of Directors on 12 May 2004.
Signed on behalf of the Board of Directors

J.L. Severs Director

P.J. Davison Director

Consolidated Cash Flow Statement
For the year ended 31 December 2003

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	22	**17,635**	16,304
Returns on investments and servicing of finance	23	**(70)**	6
Taxation		**(2,196)**	(2,467)
Capital expenditure and financial investment	23	**(5,785)**	(8,141)
Acquisitions and disposals	23	**(157)**	(647)
Equity dividends paid		**(3,007)**	(2,784)
Cash inflow before use of liquid resources and financing		**6,420**	2,271
Financing	23	**(653)**	(4,272)
Increase/(decrease) in cash in the year		**5,767**	(2,001)

Reconciliation of net cash flow to movement in net funds

		2003 £000	2002 £000
Increase/(decrease) in cash in the year		**5,767**	(2,001)
Cash flow from movement in loans and hire-purchase contracts		**842**	4,994
Change in net funds from cash flows		**6,609**	2,993
Loan acquired with subsidiary	30	**–**	(107)
New borrowings	30	**–**	(288)
New hire-purchase contracts		**–**	(313)
Movement in net funds in the year		**6,609**	2,285
Net funds at 1 January		**9,159**	6,874
Net funds at 31 December	24	**15,768**	9,159

Supplementary Statements
For the year ended 31 December 2003

Statement of Total Recognised Gains and Losses

There are no recognised gains or losses in either year other than the profit for that year.

Reconciliation of Movements in Shareholders' Funds

	2003 £000	2002 £000
Profit for the financial year	**6,161**	5,023
Dividends	**(3,429)**	(2,817)
Issue of shares	**189**	722
Net addition to shareholders' funds	**2,921**	2,928
Opening shareholders' funds	**37,734**	34,806
Closing shareholders' funds	**40,655**	37,734

Accounting Policies

Accounting Convention

The Group financial statements are prepared under the historical cost convention, as modified by the revaluation of freehold and long leasehold properties, and have been prepared in accordance with applicable accounting standards.

Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 2003.

Turnover

Profit is recognised on contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related cost as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Turnover in respect of other activities represents the invoiced value of sales. Value added tax is excluded from turnover.

Goodwill

Goodwill arising upon the acquisition of subsidiaries and the trade and assets of businesses was previously written off directly to reserves in the year in which it arose as a matter of accounting policy and was charged or credited to the profit and loss account on subsequent disposal of the business to which it related. Under accounting standard FRS10 "Goodwill and Intangible Assets" goodwill arising on acquisitions is now capitalised and amortised on a straight line basis over a period not exceeding 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill, since it is difficult to make projections exceeding this period.

Tangible Fixed Assets

Freehold and long leasehold land is not depreciated.

Depreciation is provided on other fixed assets to write off the cost or revalued amount of each asset over its estimated useful life at the following rates:

Freehold buildings	1% straight line
Plant and machinery	10% on written down value
Fixtures, fittings and office equipment	10% on written down value
Computer equipment	20% straight line
Motor vehicles	25% on written down value

Under FRS15 the Group has adopted a policy of continuous revaluation of land and buildings.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Current asset investments are stated at the lower of cost and net realisable value.

Associates

In the Group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses while the Group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

Stocks

Raw materials, consumables and finished goods are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Work in progress represents costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less any foreseeable losses. Attributable profit is taken on the same basis as turnover, as noted previously.

Provision is made for the full amount of foreseeable losses on contracts. Income arising from the settlement of contract claims is recorded when final negotiations have been completed and the amount of the settlement is considered to be collectible.

Amounts recoverable on contracts represents the excess of recorded turnover over amounts invoiced, and is disclosed separately within debtors.

Payments received on account in excess of the value of the work done on the related contract are included in creditors.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pensions

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

Leases

Assets held under hire-purchase contracts and the related hire-purchase obligations are recorded in the balance sheet at the fair value of the hired assets at the inception of the contract. The amounts by which the hire-purchase payments exceed the recorded contract obligations are treated as finance charges which are amortised over each contract term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Notes to the Financial Statements

1. **Turnover and Segmental Analysis**

Turnover in both years originated from and was destined for the United Kingdom.

Turnover, profit on ordinary activities before taxation and net assets, in both years, related to the design, fabrication and erection of structural steelwork and related activities.

Analyses of continuing operations and those which ceased trading during the previous year:

On 31 August 2002, the business of Steel (U.K.) Limited, a 90% subsidiary of the Company ceased.

	2003 Structural Steelwork £000	2003 Steel (U.K.) Limited £000	2003 Total Continuing £000	2002 Structural Steelwork £000	2002 Steel (U.K.) Limited £000	2002 Total Continuing £000
Turnover	170,152	–	170,152	156,425	993	157,418
Cost of sales	(157,353)	–	(157,353)	(144,770)	(1,260)	(146,030)
Gross profit	12,799	–	12,799	11,655	(267)	11,388
Distribution costs	(610)	–	(610)	(500)	(80)	(580)
Administrative expenses	(2,948)	–	(2,948)	(2,973)	(223)	(3,196)
	9,241	–	9,241	8,182	(570)	7,612
Other operating income	78	–	78	78	–	78
Group operating profit	9,319	–	9,319	8,260	(570)	7,690

The total figures for continuing operations in the year ended 31 December 2003 include, under cost of sales, an amount of £640,000 in relation to redundancy costs during the year at Rowen Structures Limited.

2. Group Operating Profit

	2003 £000	2002 £000
Operating profit is after crediting:		
Rents receivable	**49**	48
and after charging:		
Depreciation on owned assets	**1,709**	1,658
Depreciation on assets held under hire-purchase contracts	**317**	354
Amortisation of intangible fixed assets	**10**	9
Loss on sale of tangible fixed assets	**105**	199
Auditors' remuneration – audit (group)	**75**	75
– other services (group)	**50**	59
Rentals under operating leases		
– hire of plant and machinery	**991**	1,419
– other operating leases	**2,464**	2,332

Amount payable to Deloitte & Touche LLP by the Company in respect of audit services was £1,500 (2002: £1,500).

3. Directors and Employees

Details of directors' remuneration for the year are provided in the audited part of the Directors' Remuneration Report on pages 27 to 32.

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

	2003 No.	2002 No.
Production	**671**	740
Site	**188**	162
Sales and administration	**36**	32
	895	934

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	**29,453**	30,372
Social security costs	**3,400**	3,167
Other pension costs	**876**	975
	33,729	34,514

4. Net Interest Payable and Similar Charges

	2003 £000	2002 £000
Bank loan and overdraft repayable within five years	92	75
Hire-purchase contracts	76	111
	168	186
Less: Interest receivable	(112)	(179)
	56	7

5. Tax on Profit on Ordinary Activities

a) The tax charge comprises:

	2003 £000	2002 £000
Current tax		
UK corporation tax charge at 30% (2002: 30%) based on profits for the year	2,774	2,212
Adjustments to prior years' tax provision	(80)	(5)
Total current tax	**2,694**	2,207
Deferred tax		
Current year charge	243	258
Adjustments to prior years' provision	15	26
Total deferred tax	**258**	284
Share of associates' tax	**8**	5
Total tax on profit on ordinary activities	**2,960**	2,496

5. **Tax on Profit on Ordinary Activities** continued

b) Tax reconciliation

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £000	2002 £000
Profit on ordinary activities before tax	**9,121**	7,519
Add: share of associates' loss before tax	**142**	164
Group profit on ordinary activities before tax	**9,263**	7,683
Tax on group profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	**2,779**	2,305
Expenses not deductible for tax purposes	**222**	167
Capital allowances in excess of depreciation	**(263)**	(274)
Short-term timing differences	**20**	17
Lower tax rates due to small companies	**(12)**	(3)
Unprovided deferred tax movement	**28**	–
Adjustments to prior years' provisions	**(80)**	(5)
Group current tax charge for period	**2,694**	2,207

6. **Dividends Payable to Equity Shareholders**

	2003 £000	2002 £000
Underprovided final dividend from previous year	**7**	27
Interim paid – 6.25p per ordinary share (2002: 5.25p)	**1,256**	1,046
Final proposed – 10.75p per ordinary share (2002: 8.75p)	**2,166**	1,744
	3,429	2,817

7. **Earnings per Share**

The calculation of basic earnings per share is based on profit after taxation of £6,161,000 (2002: £5,023,000) and 20,210,711 (2002: 20,024,284) ordinary shares, being the weighted average of the number of shares in issue during the year.

The calculation of diluted earnings per share is based on the profit after taxation of £6,161,000 (2002: £5,023,000) and 20,219,657 (2002: 20,050,587) ordinary shares, being the weighted average of the number of shares in issue during the year, allowing for the full exercise of any outstanding dilutive share options.

8. **Profit of Parent Company**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company profit for the financial year amounted to £3,784,000 (2002: £2,854,000).

9. **Intangible Assets**

Goodwill	£000
Cost	
At 1 January 2003 and 31 December 2003	**189**
Amortisation	
At 1 January 2003	9
Charge for the year	10
At 31 December 2003	**19**
Net book value	
At 31 December 2003	**170**
At 31 December 2002	180

The goodwill represents that which arose in the acquisition of the business and assets of Watson Steel Limited in 2001 and the shares in Tubemasters Limited in 2002 and is being written off over 20 years (see note 30).

10. Tangible Assets

Group	Freehold and long leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2003	14,161	18,940	1,523	2,382	37,006
Additions	4,056	1,573	144	708	6,481
Disposals	(165)	(635)	(36)	(569)	(1,405)
Transfers	(593)	—	—	—	(593)
At 31 December 2003	**17,459**	**19,878**	**1,631**	**2,521**	**41,489**
Depreciation					
At 1 January 2003	73	7,136	922	806	8,937
Provided in year	87	1,350	126	463	2,026
Disposals	—	(292)	(1)	(321)	(614)
Transfers	(8)	—	—	—	(8)
At 31 December 2003	**152**	**8,194**	**1,047**	**948**	**10,341**
Net book value					
At 31 December 2003	**17,307**	**11,684**	**584**	**1,573**	**31,148**
At 31 December 2002	14,088	11,804	601	1,576	28,069

Company	Freehold and long leasehold land and buildings £000
Cost or valuation	
At 1 January 2003	13,568
Additions	4,056
Disposals	(165)
At 31 December 2003	**17,459**
Depreciation	
At 1 January 2003	67
Provided in year	85
At 31 December 2003	**152**
Net book value	
At 31 December 2003	**17,307**
At 31 December 2002	13,501

10. *Tangible Assets continued*

Freehold land and buildings used for production services by Severfield–Reeve Structures Limited at Dalton Airfield Industrial Estate were valued on 24 March 2004 on the basis of depreciated replacement cost at a small surplus above net book value by FPD Savills Limited, Chartered Surveyors. The surplus above net book value is not material and, therefore, no adjustment has been made.

Freehold land and buildings comprising the office block used by Severfield–Reeve Projects Limited at Dalton Airfield Industrial Estate and freehold land held for future investment purposes were valued on 24 March 2004 on the basis of open market value at a small surplus above net book value by FPD Savills Limited, Chartered Surveyors. The surplus above net book value is not material and, therefore, no adjustment has been made.

Included within land and buildings are improvements to long leasehold land and buildings at Dalton Airfield Industrial Estate. These are included at a cost of £529,000 which, in the opinion of the directors, equates to market value.

Freehold land and buildings occupied by Watson Steel Structures Limited at Lostock Lane, Bolton were valued in February 2003 on the basis of depreciated replacement cost at a small surplus above net book value by FPD Savills Limited, Chartered Surveyors. The surplus above net book value was not material and, therefore, no adjustment was made. Additions incurred in 2003 of £677,000 are included at cost which, in the opinion of the directors, equates to market value.

The net book value of the Group's plant and machinery includes £2,335,000 (2002: £3,350,000) in respect of assets held under hire-purchase contracts.

11. Investments

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Subsidiary undertakings	**–**	–	**728**	728
Associates	**636**	629	**955**	798
	636	629	**1,683**	1,526

The Company has investments in the following subsidiary undertakings and associates. All of the companies listed are registered in England.

Subsidiary undertakings:

Severfield–Reeve Structures Limited	– steel fabrication
Rowen Structures Limited	– steel fabrication
Watson Steel Structures Limited	– steel fabrication
Steelcraft Erection Services Limited	– steel erection
Severfield–Reeve International Limited	– overseas contracts
Severfield–Reeve Projects Limited	– project managers of building contracts
Severfield–Reeve Properties Limited	*– group property portfolio managers*
Tubemasters Limited	– fabrication of tubular steelwork
Steel (U.K.) Limited	– non-trading
TGIS Limited	– non-trading
Surreal Limited	– non-trading

The Company owns the whole of the issued share capital of the subsidiaries noted above, other than Steel (U.K.) Limited, of which it owns 90%.

11. Investments continued

Associates:

		Holding %	Class of capital
Kennedy Watts Partnership Limited	– CAD/CAM steelwork design	25.1	Preferred ordinary
Fabsec Limited	*– development of fire beam*	*25.0*	*Ordinary*

Subsidiary undertakings:

Company	£000
Cost:	
At 1 January 2003 and 31 December 2003	**728**

Associates:

Group	Goodwill £000	Shares of net assets/ liabilities £000	Loans to associate undertaking £000	Total £000
At 1 January 2003	404	(109)	334	629
Additions	–	–	157	157
Losses retained	–	(129)	–	(129)
Amortisation	(21)	–	–	(21)
At 31 December 2003	**383**	**(238)**	**491**	**636**

The Group's share of the retained loss for the year of the associates, after the amortisation of goodwill which arises on consolidation, is made up as follows:

	Kennedy Watts Partnership Limited £000	Fabsec Limited £000	Total £000
Share of operating results	29	(150)	(121)
Amortisation of goodwill	(21)	–	(21)
	8	(150)	(142)
Share of interest	–	–	–
Share of tax	(8)	–	(8)
Share of retained loss	–	(150)	(150)

12. **Stocks**

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Work in progress	**2,584**	4,992	**–**	–
Raw materials and consumables	**732**	750	**–**	–
	3,316	5,742	**–**	–

13. **Debtors**

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Trade debtors	**26,386**	24,009	**–**	–
Other debtors	**776**	1,048	**804**	761
Prepayments and accrued income	**1,514**	1,508	**–**	–
Amounts recoverable on contracts	**6,547**	6,006	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**3,474**	12,649
	35,223	32,571	**4,278**	13,410

Within Other debtors, for both Group and Company, there is deferred expenditure of £716,000 (2002: £739,000) due after more than one year.

14. **Creditors – Amounts Falling Due Within One Year**

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loan (see note 15)	**35**	35	**–**	–
Loan notes (see note 15)	**164**	224	**164**	224
Obligations under hire-purchase contracts (see note 15)	**594**	759	**–**	–
Trade creditors	**21,705**	18,241	**–**	–
Corporation tax	**2,886**	2,388	**96**	96
Other taxation and social security	**7,150**	3,500	**–**	–
Other creditors and accruals	**8,976**	10,349	**7**	7
Proposed dividend	**2,166**	1,744	**2,166**	1,744
Amounts owed to subsidiary undertakings	**–**	–	**2,417**	8,592
Amounts owed to associates	**444**	373	**–**	–
	44,120	37,613	**4,850**	10,663

15. Borrowings

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Bank loan	**54**	78	**–**	–
Loan notes	**164**	224	**164**	224
Obligations under hire-purchase contracts	**1,198**	1,956	**–**	–
	1,416	2,258	**164**	224
Due within one year	**793**	1,018	**164**	224
Due after more than one year	**623**	1,240	**–**	–
	1,416	2,258	**164**	224
Analysis of loan repayments:				
Bank loan				
Within one year or on demand	**35**	35	**–**	–
Between one and two years	**19**	43	**–**	–
Between two and five years	**–**	–	**–**	–
Loan notes				
Within one year or on demand	**164**	224	**164**	224
Obligations under hire-purchase contracts:				
Within one year	**594**	759	**–**	–
Between one and two years	**434**	594	**–**	–
Between two and five years	**170**	603	**–**	–
	1,416	2,258	**164**	224

The bank loan is secured by fixed and floating charges on the assets of the Group.

The loan notes are unsecured.

Obligations under hire-purchase contracts are secured by related assets.

16. **Provisions For Liabilities and Charges**
Deferred Taxation
The amount of deferred taxation provided and unprovided in the financial statements is:

	Amount provided		Amount unprovided	
	2003	2002	**2003**	2002
Group	**£000**	£000	**£000**	£000
Excess capital allowances	**2,338**	2,082	**–**	–
Other timing differences	**(59)**	(61)	**(28)**	–
	2,279	2,021	**(28)**	–

Deferred Taxation – Movement for the year	£000
At 1 January 2003	2,021
Current year charge	243
Adjustment in respect of prior years	15
At 31 December 2003	**2,279**

	Amount provided		Amount unprovided	
	2003	2002	**2003**	2002
Company	**£000**	£000	**£000**	£000
Excess capital allowances	**330**	167	**–**	–
Other timing differences	**–**	–	**(6)**	–
	330	167	**(6)**	–

Deferred Taxation – Movement for the year	£000
At 1 January 2003	167
Current year charge	154
Adjustment in respect of prior years	9
At 31 December 2003	**330**

17. Called Up Share Capital

	2003 £000	2002 £000
Authorised:		
27,000,000 ordinary shares of 10p each	**2,700**	2,700
Allotted, called up and fully paid:		
20,265,469 ordinary shares of 10p each	**2,027**	
20,184,969 ordinary shares of 10p each		2,018

Share Options:
During the year three executives of the Company exercised their options over a total of 80,500 ordinary shares in the Company, 25,500 shares at a price of 67p per share and 55,000 shares at a price of 312p per share.

At 31 December 2003 a total of 139,000 share options remained outstanding as follows:

1) Severfield–Reeve Plc 1998 Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
19 April 2002	130,000	283p

These options are exercisable not less than three years and not more than seven years from the date of grant.

2) Severfield–Reeve Plc Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
19 May 1995	9,000	67p

These options are exercisable not less than three years and not more than ten years from the date of grant.

18. Share Premium Account

	£000
Group and Company	
At 1 January 2003	9,231
Premium on shares issued	180
At 31 December 2003	**9,411**

19. Merger Reserve

	£000
Group	
At 1 January 2003 and 31 December 2003	**114**

20. Capital Redemption Reserve

	Group £000	Company £000
At 1 January 2003 and 31 December 2003	**25**	**25**

21. *Profit and Loss Account*

	Group £000	Company £000
At 1 January 2003	26,346	6,352
Retained profit for the year	2,732	355
At 31 December 2003	**29,078**	**6,707**

The cumulative amount of goodwill written off to reserves is £1,122,000 (2002: £1,122,000).

22. Reconciliation of Group Operating Profit to Operating Cash Flow

	2003 £000	2002 £000
Group operating profit	**9,319**	*7,690*
Depreciation charges	**2,026**	2,012
Amortisation charges	**10**	9
Loss on sale of tangible fixed assets	**105**	199
Decrease/(increase) in Stocks	**3,001**	(3,663)
(Increase)/decrease in Debtors	**(2,638)**	10,376
Increase/(decrease) in Creditors	**5,812**	(319)
Net cash inflow from operating activities	**17,635**	16,304

23. Analysis of Cash Flows

	2003 £000	2002 £000
Returns on investments and servicing of finance		
Interest received	**98**	192
Interest paid	**(92)**	(75)
Interest element of hire-purchase payments	**(76)**	(111)
	(70)	6
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(6,481)**	(8,894)
Receipts from sales of tangible fixed assets	**696**	753
	(5,785)	(8,141)
Acquisitions and disposals		
Deferred consideration from sale of subsidiary business in 2000	–	308
Net overdraft acquired with subsidiary undertaking	–	(674)
Purchase of subsidiary undertaking	–	(67)
Costs of purchase of subsidiary undertaking	–	(101)
Investment in associated undertaking	**(157)**	(113)
	(157)	(647)
Financing		
Issue of ordinary share capital	**189**	722
Loan notes repaid	**(60)**	(64)
Bank loan repaid	–	(3,968)
Capital element of bank loan payments	**(24)**	(29)
Capital element of hire-purchase payments	**(758)**	(933)
	(653)	(4,272)

24. Analysis of Net Funds

	At 1 January 2003 £000	Cash flow £000	At 31 December 2003 £000
Cash at bank and in hand	11,417	5,767	**17,184**
Bank loan	(78)	24	**(54)**
Loan notes	(224)	60	**(164)**
Hire-purchase contracts	(1,956)	758	**(1,198)**
Net funds	9,159	6,609	**15,768**

25. Capital Commitments

	Group		Company	
	2003	*2002*	***2003***	*2002*
	£000	£000	**£000**	£000
Contracted for but not provided in the financial statements	**1,130**	Nil	**—**	Nil

26. Contingent Liabilities

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 31 December 2003 these amounted to £554,000 (2002: £409,000). The Group has also given performance bonds in the normal course of trade.

27. Operating Lease Commitments

At 31 December 2003 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings		Other	
	2003	2002	**2003**	2002
	£000	*£000*	***£000***	*£000*
Leases which expire:				
Within one year	**173**	173	**7**	84
Between one and two years	**—**	—	**367**	199
Between two and five years	**114**	114	**1,223**	967
After five years	**1,411**	1,411	**—**	—
	1,698	1,698	**1,597**	1,250

28. Related Party Transactions

During the year the Group entered into related party transactions with PLLG, a company controlled by P.M. Levine (Non-executive Chairman).

These transactions were for fees in relation to sundry advice given and totalled £249,000 (2002: £265,000).

The Group is also involved in a related party transaction with Dalton Airfield Estate Limited, a company controlled by six directors of the Company. This transaction related to the sale and leaseback of the majority of the production facility at Dalton which was sold for a cash consideration of £14 million in 2001 and then leased back to the Company at rent payable of £1.36 million per annum.

There were no outstanding balances with either of the above at 31 December 2003 (2002: £Nil).

During the year the Group purchased services in the ordinary course of business from Kennedy Watts Partnership Limited, an associated undertaking, at a cost of £1,738,000 (2002: £1,613,000). The amount outstanding at 31 December 2003 was £444,000 (2002: £373,000).

Loans outstanding from Fabsec Limited, an associated undertaking, at 31 December 2003 amounted to £491,000 (2002: £334,000).

29. Financial Instruments

The Group's financial instruments comprise borrowings, cash at bank and liquid resources and various net working capital items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to transact and to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency translation risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

With the exception of foreign currency matters, short-term debtors and creditors are excluded from these disclosures.

Liquidity Risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs while investing cash assets safely and profitably.

Undrawn Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2003 in respect of which all conditions precedent had been met at that date were as follows:

	2003 £000	2002 £000
Expiring in one year or less — bank overdraft	**5,000**	5,000

Currency Risk

The vast majority of transactions are transacted in Sterling. A substantial amount of the Group's activities are located in the UK. Hedging transactions in the current and prior year were not material. The liabilities and assets designated in foreign currencies are shown below, in the Interest Rate Risk table.

29. **Financial Instruments** continued

Interest Rate Risk

The interest rate profile of the financial liabilities and assets of the Group was as follows:

As at 31 December 2003

	Floating rate £000	Fixed rate £000	Total £000	Fixed Rate Borrowings: Weighted average fixed interest rate %	Fixed Rate Borrowings: Weighted average period for which rate is fixed Years
Financial liabilities:					
Sterling	(1,252)	(164)	(1,416)	5	2
Financial assets:					
Sterling	15,491	–	15,491	–	–
US Dollar	93	–	93	–	–
Euro	1,600	–	1,600	–	–
	17,184	–	17,184	–	–

As at 31 December 2002

	Floating rate £000	Fixed rate £000	Total £000	Fixed Rate Borrowings: Weighted average fixed interest rate %	Fixed Rate Borrowings: Weighted average period for which rate is fixed Years
Financial liabilities:					
Sterling	(2,034)	(224)	(2,258)	5	3
Financial assets:					
Sterling	11,409	–	11,409	–	–
US Dollar	6	–	6	–	–
Euro	2	–	2	–	–
	11,417	–	11,417	–	–

The interest rates on floating borrowings are determined by reference to the relevant major UK Banks base rates.

Interest bearing financial liabilities comprise net obligations under the bank loan, loan notes and finance leases.

Interest bearing financial assets comprise cash at bank and in hand. Cash at bank yields interest based on the prevailing base rate.

Fair value of financial assets and liabilities

There is no material difference between the fair value and book value of the Company's financial instruments.

30. **Purchase of New Subsidiary Companies in Previous Year**

a) Watson Steel Structures Limited

On 28 November 2001 the Company acquired the total issued share capital of Watson Steel Structures Limited for a cash consideration of £1.

On 30 November 2001 Watson Steel Structures Limited acquired the structural steelwork business and assets of Watson Steel Limited from AMEC Capital Projects Limited, a subsidiary of AMEC PLC, for a cash consideration of £2,500,000.

Established in 1933, Watsons is one of the UK's larger constructional engineering companies. A famous brand name, both in the UK and overseas, it specialises in the same core business of the design, fabrication and erection of structural steelwork. It has a renowned and highly respected expertise in specialist steelwork, including bridges, infrastructure works, tubular framed structures, platework and pipework. The business operates from a single site at Bolton, Lancashire.

The purchase price was made up as follows:

	Book and fair value £000
Freehold land and buildings	2,500
Plant and machinery	–
Fixtures and fittings	–
	2,500
Cash consideration	2,500
	–
Costs of acquisition	163
Goodwill arising	163

The goodwill element of the transaction, amounting in total to £163,000, was capitalised and is being amortised on a straight line basis over 20 years.

b) Tubemasters Limited

On 31 January 2002 the Company acquired the entire issued share capital of Tubemasters Limited for a total consideration of £405,000.

Tubemasters, based in York, is a specialist fabricator with particular expertise in tubular work for complex structural projects. Tubemasters complements the operation and business of Watson Steel Structures Limited and will augment the total construction package offered by the Group.

30. **Purchase of New Subsidiary Companies in Previous Year** continued

The purchase price was made up as follows:

	Book and fair value £000
Freehold land and buildings	593
Plant and machinery	52
Fixtures and fittings	66
Stock and work in progress	177
Debtors	599
Cash at bank	1
Bank overdraft	(675)
Bank loan	*(107)*
Creditors	(326)
Deferred tax	(1)
	379
Goodwill	26
	405
Satisfied by:	
Cash to vendors	67
Costs paid by cash	50
5% loan notes issued	288
Total consideration	405

This acquisition was accounted for using the acquisition method of accounting.

The goodwill element of the transaction, amounting to £26,000 was capitalised and is being amortised on a straight line basis over 20 years.

Five Year Summary

Years ended 31 December Results	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Turnover	**170,152**	157,418	145,786	128,930	111,994
Operating profit (including associates)	**9,177**	7,526	6,512	10,565	9,064
Profit on ordinary activities before taxation	**9,121**	7,519	6,507	10,324	8,777
Exceptional items	**–**	–	–	–	(2,852)
Profit for the financial year	**6,161**	5,023	4,437	6,429	4,103
Assets employed					
Fixed assets	**31,954**	28,878	21,912	26,984	25,352
Net current assets	**11,603**	12,117	16,343	9,850	8,082
Creditors: amounts falling due after more than one year	**(623)**	(1,240)	(1,713)	(1,554)	(1,885)
Provisions for liabilities and charges	**(2,279)**	(2,021)	(1,736)	(2,185)	(1,399)
Net assets/total shareholders' funds	**40,655**	37,734	34,806	33,095	30,150
Key statistics					
Earnings per share:					
Basic	**30.48p**	25.08p	22.42p	32.32p	20.50p
Adjusted	***30.48p***	*25.08p*	*22.42p*	*35.69p*	*30.82p*
Diluted	**30.47p**	25.05p	22.29p	32.22p	20.32p
Dividends per share	**17.00p**	14.00p	14.00p	14.00p	12.00p
Dividend cover (times)†	**1.8**	1.8	1.6	2.5	2.6
Share price — high	**360.0p**	347.5p	298.0p	287.5p	417.5p
— low	***207.5p***	*222.5p*	*182.5p*	*175.0p*	*172.5p*

† Calculated with reference to adjusted earnings per share figure.

Financial Calendar

Preliminary announcement of full year results	31 March 2004
Publication of annual report	12 May 2004
Annual General Meeting	4 June 2004
Payment of final dividend	*8 June 2004*
Announcement of interim results	September 2004
Payment of interim dividend	October 2004

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Severfield–Rowen Plc will be held at The Angel Inn, Long Street, Topcliffe, Thirsk, North Yorkshire, YO7 3RW on Friday 4 June 2004 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 2003 together with the Auditors' Report.
2. To declare a final dividend for the year ended 31 December 2003 of 10.75p net per share, payable on 8 June 2004 to shareholders on the register on 14 May 2004.
3. To approve the Directors' Remuneration Report for the year ended 31 December 2003.
4. To re-elect J.R. Featherstone (aged 71) as a director.
5. To re-elect B.W. Hick (aged 45) as a director.
6. To re-elect D.P. Ridley (aged 61) as a director.
7. To reappoint Deloitte & Touche LLP as auditors of the Group and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolutions, of which numbers 8 and 9 will be proposed as ordinary resolutions and numbers 10 and 11 will be proposed as special resolutions:

8. Severfield–Rowen Share Matching Plan
   - (i) That the rules of the *Severfield–Rowen Share Matching* Plan (the "Plan"), the main features of which are summarised in the Chairman's letter and attachments circulated to all shareholders together with the Annual Report for the year ended 31 December 2003, be approved and adopted, and that the directors be authorised to do all acts and things as they consider necessary or expedient for the purposes of implementing and giving effect to this resolution.
   - (ii) That the directors be authorised to establish such schedules to the Plan and/or such other plans based on the Plan, but modified to take account of local tax, exchange control or securities laws outside the UK, provided that any shares made available under such schedules or plans must be treated as counting against the relevant individual or overall dilution limits in the Plan.
9. That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all of the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £668,843 provided that such authority shall (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) expire at the conclusion of the Annual General Meeting of the Company to be held in 2005, or on 3 September 2005, whichever is the earlier, provided that such authority shall allow the Company to make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the resolution had not expired.

10. That, subject to the passing of resolution 9 set out in the notice convening this meeting, the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 9 as if section 89 (1) of the Act did not apply to such allotment, such power to expire at the conclusion of the Annual General Meeting of the Company to be held in 2005, or on 3 September 2005, whichever is the earlier, save that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power, and the directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired. Such power shall be limited to:

    (i) the allotment of equity securities in connection with any invitation made to holders of ordinary shares to subscribe by way of rights or by way of open offer or other pro rata offer where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or any recognised stock exchange in any territory; and

    (ii) the allotment (other than pursuant to (i) above) of equity securities for cash up to a maximum aggregate nominal amount of £101,340.

11. That the Company be and is hereby unconditionally and generally authorised to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 10p each in its capital on such terms and in such a manner as the directors may from time to time determine, provided that:

    (i) The maximum number of shares which may be so purchased is 2,026,797 which represents 10% of the issued ordinary share capital as at 11 May 2004;

    (ii) The minimum price which may be so paid is 10p per share (exclusive of expenses);

    (iii) The maximum price which may be so paid for each share shall not exceed an amount (exclusive of expenses) equal to 5 per cent over the average of the middle market quotations of the ordinary shares as derived from the Daily Official List of The London Stock Exchange for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned;

    (iv) This authority shall continue in force until the conclusion of the next Annual General Meeting of the Company to be held in 2005, or on 3 September 2005, whichever is the earlier;

    (v) The Company may agree before the authority terminates under (iv) above to purchase ordinary shares where the purchase will or may

Notice of Annual General Meeting
continued

be executed after the authority terminates (either wholly or in part). The Company may complete such a purchase even though the authority has terminated.

By order of the Board

P.J. Davison
Secretary
12 May 2004

Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire, YO7 3JN

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead subject to the Articles of Association of the Company. Proxy forms must be lodged with the registrars of the Company not less than 48 hours before the time fixed for the meeting. Lodgement of proxy forms will not preclude a member from attending and voting at the meeting. A proxy need not be a member of the Company. A form of proxy is included.
2. The following will be available for inspection at the registered office of the Company during normal business hours and, on the day of the Annual General Meeting, at the aforementioned venue 15 minutes prior to and throughout the meeting: (a) Register of directors' interests, (b) Copies of all directors' service contracts, (c) Memorandum and Articles of Association of the Company, (d) Rules of the Severfield-Reeve Executive Share Option Scheme, (e) Rules of The Severfield-Reeve Plc 1996 Executive Share Option Scheme, (f) Rules of The Severfield-Reeve Plc 1998 Executive Share Option Scheme, (g) Rules of The Severfield-Rowen Plc 1999 Annual Deferred Bonus Share Scheme.
3. A copy of the draft rules of the Severfield-Rowen Share Matching Plan will be available for inspection at the Company's registered office, at the offices of New Bridge Street Consultants LLP, 20 Little Britain, London, EC1A 7DH and at the offices of ABN Amro, 250 Bishopsgate, London, EC2M 4AA during normal working hours on any weekday excluding public holidays from the date of this notice up to and including the date of the Annual General Meeting and will also be available for inspection at the Annual General Meeting.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the Register of Members of the Company as at 18.00 hours on 2 June 2004 shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to members in the register after this deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Severfield–Rowen Plc
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