

Severfield

Annual report and accounts

for the year ended 31 March 2018

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BUILDING FROM A STRONG FOUNDATION

ANNUAL REPORT 2018



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severfield.annualreport2018.com

WELCOME TO OUR ANNUAL REPORT 2018

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

“Our 2018 results demonstrate our continued progress in executing our strategy”

John Dodds
Non-executive chairman

 Read more on our chairman's view
on page 06

“The Group has delivered another year of strong profit growth in 2018”

Alan Dunsmore
Chief executive officer

 Read more about our strategy
on page 22

Investor website

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

- Latest news and press releases
- Annual reports and investor presentations

Getting around the report

 This icon signposts the reader to other sections in this report

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



Severfield

THE STRENGTH WITHIN ICONIC STRUCTURES

Our projects



Tottenham Hotspur

Location Tottenham, London	Architect Populous
Client Tottenham Hotspur	Tonnage 16,700
Contract manager Mace	Completion date July 2018
Engineer BuroHappold Engineering	

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

The new stadium will provide Tottenham Hotspur with a state-of-the-art sporting and entertainment facility with seating capacity of over 62,000. It will be the first stadium in the UK to feature a retractable dividing pitch – a retractable grass pitch for football and a synthetic surface underneath for National Football League ('NFL') games and other sporting and entertainment events.

Construction of the first phase of the project, comprising the north, east and west stands, took place during the 2016/17 football season whilst the old White Hart Lane stadium was still in operation. Following the last game of the 2016/17 season, the old stadium was demolished and work on the south stand commenced. The main features of this phase are the two architecturally unique steel 'trees' within the south stand, each weighing 275 tonnes. These will support the back of the new 17,500-seater single-tier home stand, which has been designed to generate a 'wall of sound' with the seating bowl

arranged to place fans closer to the pitch than in any other stadium in the UK.

This project involved many complex elements from the retractable pitch, where Severfield worked alongside engineering specialist SCX to provide three 3,000-tonne pitch-long steel beds, to the highly-technical roof structure. The new roof is formed from structural tension cables, fixed to a compression ring, which creates the elliptical outside profile of the stadium. The compression ring comprises 54 box girders each measuring around 15 metres long and weighing between 25 to 30 tonnes. The structure was fabricated and trial assembled at our Lostock facility in order to achieve accuracy in length of less than 1 millimetre. On site, the lifting of the 600-tonne roof involved a highly complex synchronised strand jacking operation, involving over 200 strand jacks, making it one of the biggest of these operations ever undertaken in the UK.

22 Bishopsgate

Location	Architect
City of London	PLP Architecture
Client	Tonnage
AXA Real Estate	17,000
Main contractor	Completion date
Multiplex Europe	April 2019
Engineer	
WSP UK	

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

The completed project will become the City's tallest tower standing at 278 metres high. This will provide approximately 1.3 million square feet of office space and 110,000 square feet for amenities, including restaurants, retail facilities, a food market, innovation hub, well-being retreat and spa, curated 'art walk' as well as London's highest free public viewing gallery.

The project is built on the existing foundations, three-storey basement and seven-storey core that were previously constructed as part of 'The Pinnacle' project, which was suspended in 2012. The building has a concrete central core and a steel frame superstructure consisting of steel beams which act compositely with concrete slabs, cast onto permanent metal decking. Outriggers are located on certain higher floors to limit the wind induced drift.

A series of transfer structures which were built by others, below ground floor, carry the superstructure loads into the existing Pinnacle foundations.

Construction started in 2017 and is forecast for completion in early-2019. Severfield is providing the connection design, fabrication and construction of c.17,000 tonnes of structural steel, which includes the use of Fabsec plated composite beams from level 10 upwards. Other services and fixtures include the manufacture and installation of c.1.6 million square feet of metal decking and the installation of 500,000 shear studs. Severfield are also providing full edge protection to the floors using the 'Seversafe' edge protection system and 'Seversafe' perimeter fan system.

Wimbledon No. 1 Court roof

Location
Wimbledon, London

Architect
KSS

Client
The All England Lawn Tennis
Club (AELTC)

Tonnage
6,000

Main contractor
Sir Robert McAlpine

Completion date
April 2019

Engineer
Thornton Tomasetti

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

The project will deliver a new bespoke roof system comprising both fixed and retractable components, similar to the one installed on Centre Court by Severfield in 2009, increase the seating capacity to c.12,400 as well as redeveloping the hospitality facilities and public plaza. This will transform the stadium into a grass court arena capable of guaranteed play in all weather conditions. Planned over a three-year period with two breaks in the site activities to accommodate the dates of the tournament, the project is expected to be complete in time for the 2019 Championships.

The main feature of the project is the unique retractable roof which envelops the distinctive structure of No.1 Court, just below the slopes of Henman Hill. The project includes the installation of a new fixed roof, to support the moving elements of the retractable roof, and a structural steel mainframe with pre-cast concrete terracing to house the seating areas.

For the fixed roof, Severfield has installed five large truss units to support the complex inner roof structure. These trusses were installed in manageable-sized sections using our own temporary works system to support the new roof during construction. These large trusses are then connected by the inner roof, comprising a braced lattice structure cantilevering off the large trusses and fixed by a tension ring at the innermost portion of the roof.

The retractable roof has tested our design, fabrication and construction capabilities. Its moving components include 11 trusses, measuring c.75 metres in length and weighing over 90 tonnes each. These highly-technical components were pre-assembled on two practice courts before being gradually lowered onto the inner roof structure.

The project has utilised the Group's other services including the 'Seversafe' edge protection system and Severfield has also provided over 81,000 square feet of metal decking and 21,500 shear studs.

Three Snowhill

Location Snowhill Queensway, Birmingham	Architect Weedon Architects
Client Ballymore	Tonnage 4,500
Main contractor BAM Construction	Completion date July 2018
Engineer WSP UK	

Three Snowhill is a landmark office building at the gateway to the Birmingham business district and will complete the final phase of the Snowhill Estate redevelopment project, the largest city centre office development outside London.

The new 19-storey office block will provide approximately 420,000 square feet of grade A office space together with retail and leisure units at the podium and ground floor levels to meet the growing demands for commercial office space in the city.

For the project, Severfield provided the connection design, fabrication and construction for 4,500 tonnes of steelwork, including the supply of 2,500 cast-in plates which were individually surveyed and welded on site by our in-house construction team. We also provided and installed over 480,000 square feet of metal decking. This challenging project featured variations in floorplate layouts and depths which were achieved by a complex arrangement of cantilevered and suspended steel frames, supported from sloping and vertical columns. The building will also be crowned with an elegant curved steel and glass atrium roof structure.

Being located in the centre of England's second busiest city and running parallel to Birmingham's new tram line and Snow Hill train station, this project has required close collaboration with other trades and our subcontracted haulage teams to ensure its smooth operation. As a result of the restricted site access and limited offloading times the project was assisted by the 'Seversafe' off-loading system, which enabled the team to unload the materials delivered to site quickly and efficiently.

Ely Southern Bypass

Location Ely, Cambridgeshire	Architect Knight Architects
Client East Cambridgeshire District Council	Tonnage 2,100
Main contractor VolkerFitzpatrick	Completion date October 2018
Engineer Tony Gee & Partners	

The Ely southern bypass is a new 1.7-kilometre road arcing around the southern edge of the town.

The project consists of two main structures, a 100-metre rail bridge over two railway lines and a 300-metre viaduct over the River Great Ouse and its floodplains. Across the viaduct is a cantilevered walkway, built of weathering steel, for pedestrians to enjoy views to the spire of Ely Cathedral.

The rail bridge was manufactured in sections at our Lostock facility, delivered to the site by specialist hauliers and pre-built on-site into larger sections of 150 metres in length. The installation of the rail bridge involved lifting these sections into place in three separate lifts of 75 tonnes each. The lifts were undertaken during two weekend railway possessions using a 750-tonne crawler crane.

The installation of the viaduct was completed using a 450-tonne crawler crane, on a floating platform within the river floodplain. The viaduct's structure consists of six spans of twin trapezoidal boxes, which were installed and welded together over a period of six weeks.

A team of up to 14 welders worked to a sequence to allow the bridge to expand and contract while the welding took place. Structural tie bars were installed within the viaduct's concrete piers, built with a 'hook and eye' design to maintain tension at the top. Heavy steel bars, installed at tension, will keep the viaduct flying over the floodplain when it is crossed by numerous HGVs on a daily basis.

The walkway consists of two ramps, which link and transform into a feature walkway over the river, including the viewing platform. This has been a logistically complex project delivered by our experienced project, construction and in-house design teams.

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Severfield – a snapshot

What we want to be

Our vision

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

What defines us

Our values

Safety

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

Customer focus

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

Integrity

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

Commitment

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

What we set out to achieve

Our mission

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

What we do

Our business model

Design  Fabricate  Construct 

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

 See how we create value on page 16

Who we serve

Markets

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

 See the markets we serve on page 18

How we will achieve our vision

Our strategy

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



Growth



Clients



India



Operational
excellence



People



See our strategy on pages 22 to 29

Where we do it

Our Group

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

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

Severfield (NI),
Ballinamallard, Co. Fermanagh

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

JSW Severfield Structures
Mumbai, India

Composite Metal Flooring
Monmouthshire, Wales

☰ See the scale of our operations on pages 10 to 13

How we measure success

Our KPIs

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

☰ See key performance indicators on page 30

How we manage threat

Our risks

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

☰ See how we manage risk on pages 58 to 68

How we govern ourselves

Our governance

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

☰ See more on governance on pages 78 to 84

How we impact on society

Resources and relationships

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

Safety Sustainability People Communities

☰ Read more about building a sustainable business on pages 46 to 57

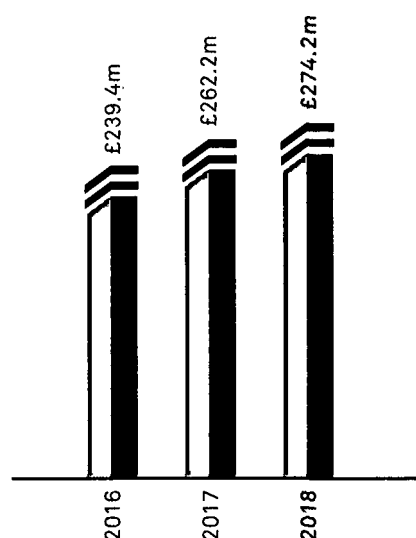
Our year

Financial highlights

Revenue

£274.2m

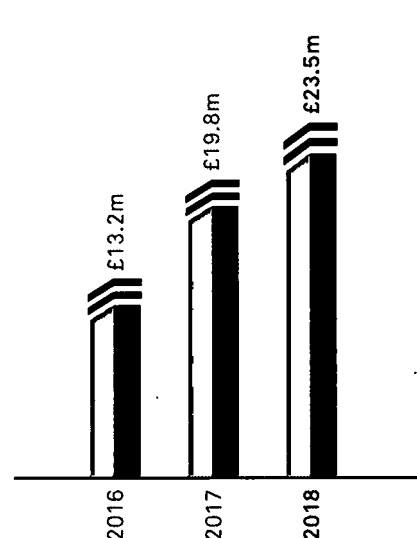
(2017: £262.2m)



Underlying* profit before tax

£23.5m

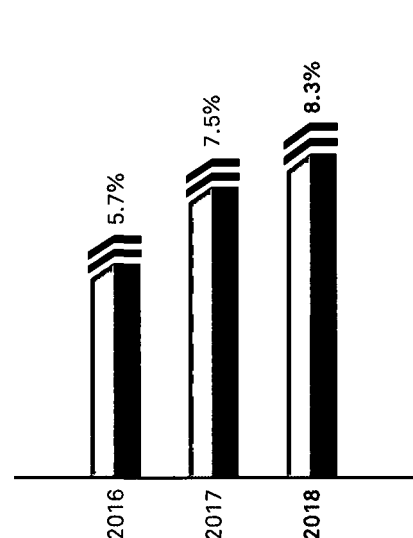
(2017: £19.8m)



Underlying* operating margin

8.3%

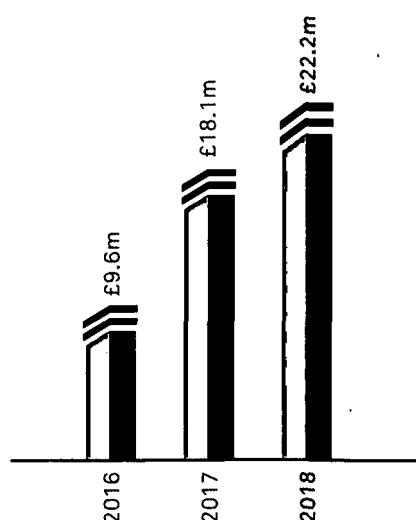
(2017: 7.5%)



Profit before tax

£22.2m

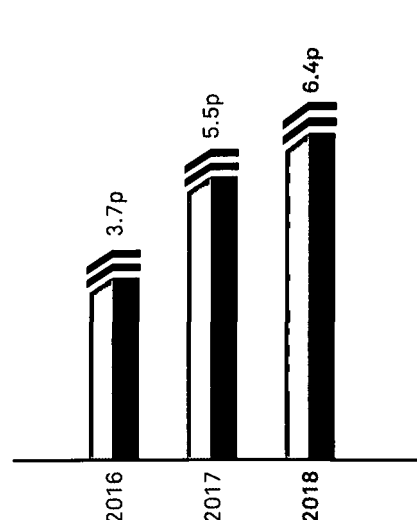
(2017: £18.1m)



Underlying* basic earnings per share

6.4p

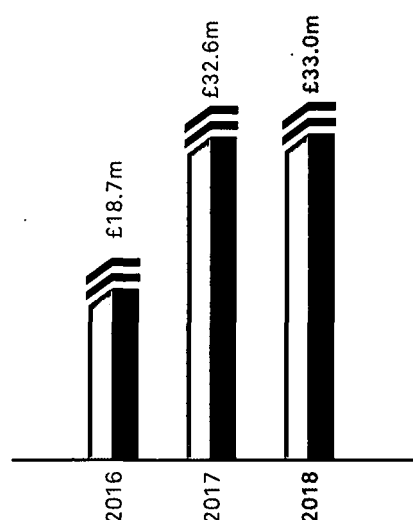
(2017: 5.5p)



Net funds

£33.0m

(2017: £32.6m)

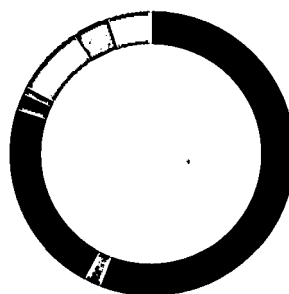


Operational highlights

- Revenue up five per cent to £274.2m (2017: £262.2m)
- Underlying* profit before tax up 19 per cent to £23.5m (2017: £19.8m)
- Underlying basic earnings per share up 15 per cent at 6.4p per share (2017: 5.5p per share)
- Continued strong cash performance resulting in year-end net funds of £33.0m (2017: £32.6m) after equity investment of £5.5m in Indian joint venture to repay term debt
- Total dividend increased by 13 per cent to 2.6p per share (2017: 2.3p per share), includes proposed final dividend of 1.7p per share (2017: 1.6p per share)
- Proposed special dividend of 1.7p per share to deliver a total cash return to shareholders of 4.3p per share
- Return on capital employed ('ROCE') of 16.5 per cent (2017: 14.6 per cent)
- Over 100 projects undertaken during the year in key market sectors including the new stadium for Tottenham Hotspur, the retractable roof for Wimbledon No.1 Court and a new commercial tower at 22 Bishopsgate
- UK order book of £237m at 1 June 2018 (1 June 2017: £229m), including landmark contract for the new Google Headquarters at Kings Cross for 2019
- Reorganisation of our factory operations in North Yorkshire now completed
- Continued profitability from Indian joint venture of £0.5m (2017: £0.2m), improving market position now reflected in India order book of £106m at 1 June 2018 (1 June 2017: £73m)

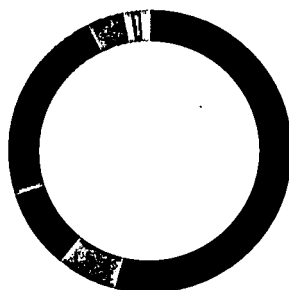
UK order book June 2018

£237m



UK order book June 2017

£229m



*Underlying results are stated before non-underlying items of £1.3m (2017: £1.8m):

- Amortisation of acquired intangible assets – £1.3m (2017: £2.6m)
- Movement in fair value of derivative financial instruments – £nil (2017: gain of £0.8m)
- The associated tax impact of the above, together with the impact of a reduction in future corporation tax rates on deferred tax liabilities – £0.4m (2017: £0.6m)

 Read more about our operating performance on pages 32 to 38

Our chairman's view

I am delighted to report another year of strong performance in 2018. We remain focused on delivering our strategy and continue to invest for the future in order to deliver sustainable long-term value for shareholders.

The Group has delivered a third successive year of revenue growth, with revenue of £274.2m, up five per cent from the previous year. We are also extremely pleased with our profit performance in 2018 with underlying* profit before tax increasing by 19 per cent to £23.5m from £19.8m in 2017. This mainly reflects good operating performance in the UK, where operating margins have increased to 8.3 per cent, and another year of profitable performance from our Indian joint venture.



Read more about our operating performance on pages 32 to 38

We have a strong and flexible balance sheet which underpins our plans for the future. Year-end net funds were £33.0m and our continued cash generation has enabled further capital and strategic investment in 2018, in our factories, on our sites and in India, where the term debt has now been repaid.

Board changes

Following Ian Lawson's departure from the Group on 1 February 2018, Alan Dunsmore and Adam Semple were appointed as chief executive officer and Group finance director. Alan and Adam had held these roles on an acting basis since 28 March 2017, following Ian's continued absence due to physical ill health. During this period, I assumed the role of executive chairman on an acting basis and resumed my role as non-executive chairman from 1 February 2018.

I would like to pay tribute to Ian Lawson's tremendous contribution to the Severfield business since his arrival in November 2013 and he leaves with our thanks and best wishes. I would also like to acknowledge the important roles that Alan, Adam and Ian Cochrane have played over the last year and look forward to working with all of them as we continue to deliver on our growth strategy.



Read more about our board of directors on page 72

John Dodds
Non-executive chairman

Dividends

We are confident in our ability to deliver sustainable returns to shareholders and in our dividend policy. The total dividend for the year has been increased by 13 per cent to 2.6p per share (2017: 2.3p per share) which includes a proposed final dividend of 1.7p per share (2017: 1.6p per share). The board is also recommending a special dividend of 1.7p per share, resulting in a total cash return to shareholders of 4.3p per share for 2018. These dividends reflect the improved result for the year and the board's confidence in the future prospects of the Group.

 Read more about our financial performance on pages 40 to 44

Strategy and markets

As well as making good progress towards our 2020 strategic profit target, we continue to deliver on our strategic objectives. We have seen further growth in revenue and underlying pre-tax profits, continued operating margin improvement and ongoing investment in our clients, people and facilities. The Group continues to be shaped by the programme of projects launched in 2017 under the banner of 'Smarter, Safer, more Sustainable' which include ongoing improvements to our business processes, use of technology and operating efficiencies. As part of this initiative, we have reorganised our factory operations in North Yorkshire, to make better use of our operational footprint and to launch a new business, Severfield (Products & Processing), which will allow us to address smaller scale projects, a new area of growth potential for the Group.

We have also continued to explore other new areas of organic growth for the business and have commenced bidding for work in continental Europe, where we have now established a small team based in the Netherlands, and in the medium to high-rise residential construction market, where we have developed a steel solution.

UK government policy continues to support investing in upgrading the UK's infrastructure and is helping to drive a strong pipeline of major projects, particularly in the transport sector, work which Severfield is well placed to benefit from. Despite the uncertainties of Brexit, we have a strong position in a number of sectors and our breadth of capabilities positions us well to address our clients' needs.

 Read more about our strategy on pages 22 to 29

People

I was pleased to be able to visit a number of our sites in 2018 and I continue to be impressed by the skills and commitment our employees demonstrate. This, combined with our specialist capabilities and leading positions in our core markets, is at the centre of everything we do. I would like to thank all of our employees for their hard work this year.

The safety and, very importantly, the well-being of our people remain a priority of the board and I am pleased to report that during this year we, once again, reduced our accident frequency rate ('AFR') and have sought to raise employee awareness of good health and well-being, including mental health.

 Read more about building a sustainable business on pages 46 to 57

Outlook

Our 2018 results demonstrate our continued progress in executing our strategy. Our strong performance in 2018, together with our UK order book of £237m and stable pipeline of potential future orders, leaves us well positioned to achieve our 2020 strategic profit target of £26m. We will continue to invest in the business to improve our operational efficiency and to ensure that we have the best people in place to deliver our strategic objectives and growth over the long term.

John Dodds
Non-executive chairman
20 June 2018



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

Corporate governance

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

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Our unique offering

We continue to invest in what differentiates us, strengthening our long-term proposition.



Client focus

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



Market leader

Severfield is the UK's market-leading structural steel company, respected for delivering world-class engineering and design excellence. We have unrivalled experience and capability in the design, fabrication and construction of steel structures. The breadth of technical expertise in our workforce ensures that we can serve a diverse range of market sectors, positioning us well for future growth.



Integrated approach from design to construction

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



Scale

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



Innovation

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



Cost base

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



Productivity and growth

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

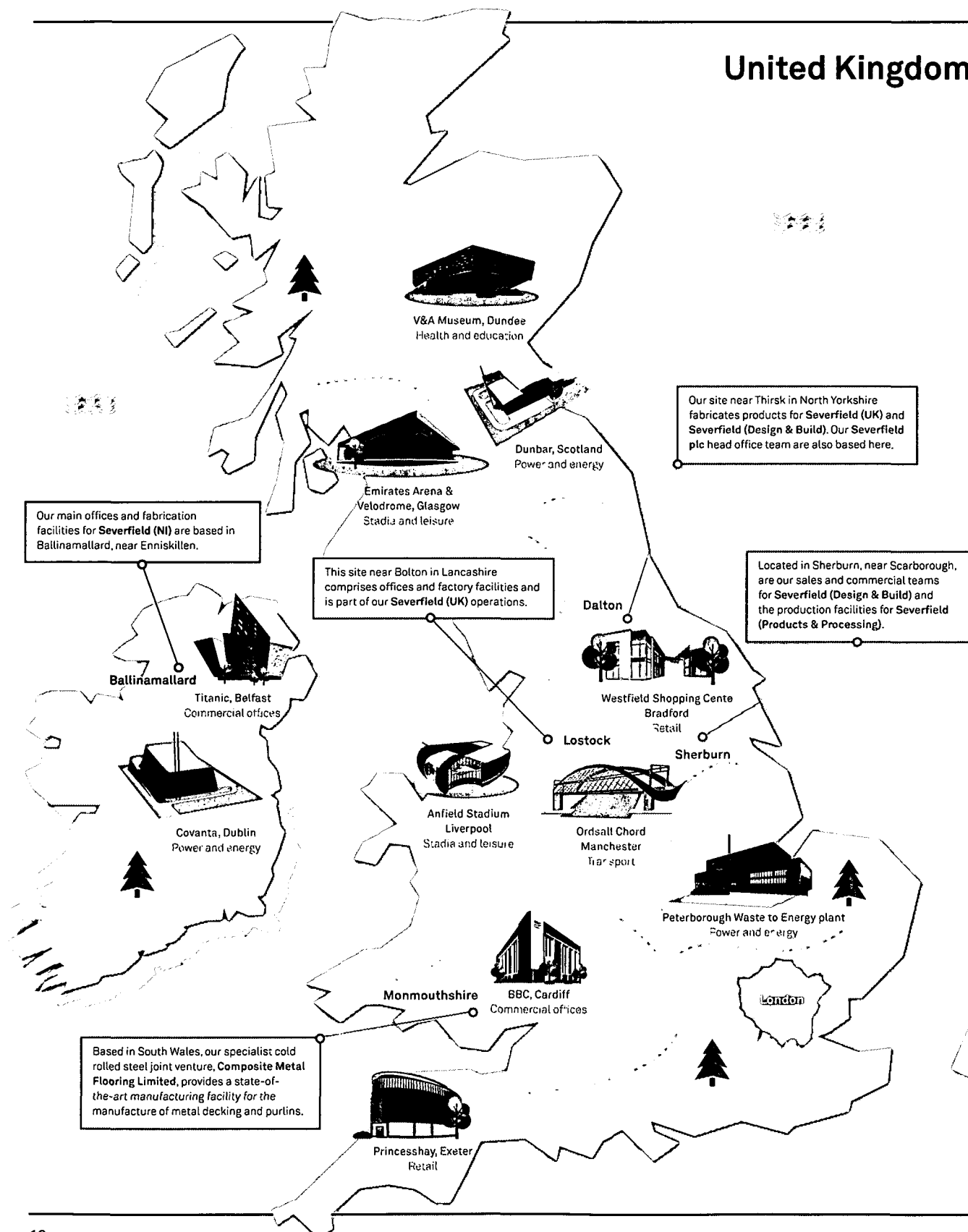


Supply chain strengths

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

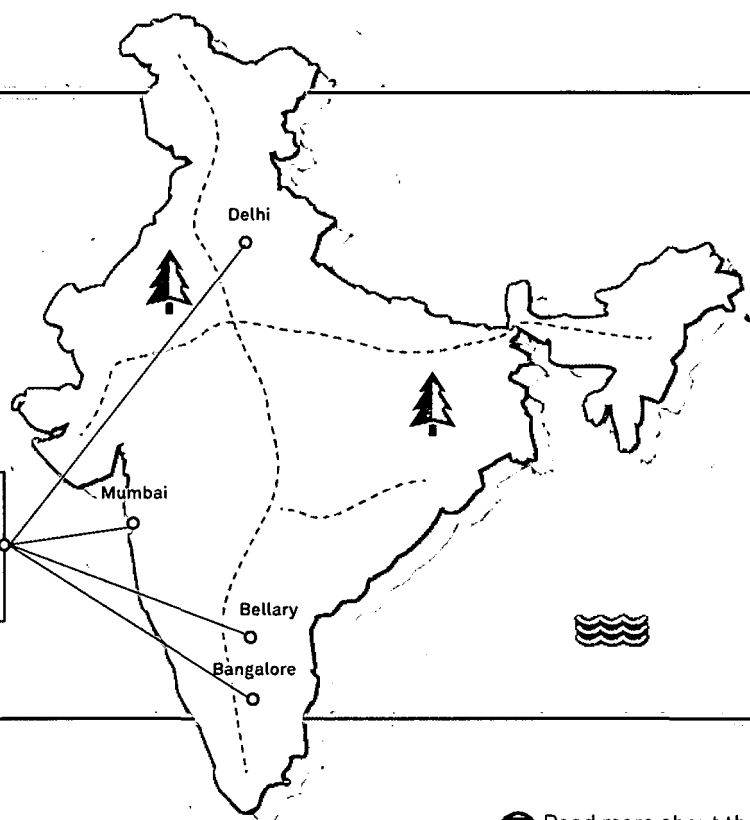
The scale of our operations

United Kingdom



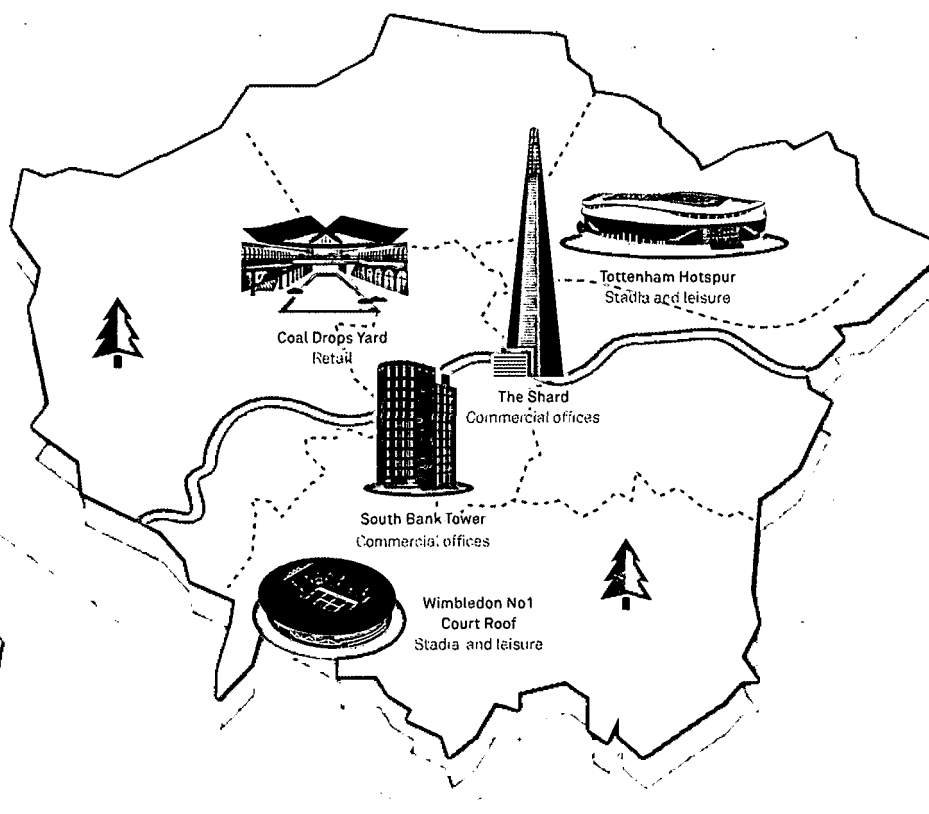
India

JSW Severfield Structures Limited, a 50:50 joint venture with JSW Steel (India's largest steel producer) which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the growing Indian market.



London

 Read more about the scale of our operations on page 12



The scale of our operations

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

Group potential tonnage: 150,000 tonnes per year

Severfield (UK) Limited Dalton, North Yorkshire

c.550 employees

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

Severfield (UK) Limited Lostock, Lancashire

c.250 employees

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

Severfield (Design & Build) Limited

c.100 employees

The company, located in Sherburn, near Scarborough, is the principal design and build steelwork contractor for distribution warehouses and low-rise structures in the UK. The company designs, fabricates and constructs structural steelwork and portal frames principally for the warehouse, distribution and industrial sectors. In 2018, following the reorganisation of our factory operations in North Yorkshire, steel fabrication at Sherburn was consolidated into our Dalton factory.

Severfield (NI) Limited

c.300 employees

Severfield's base in Northern Ireland has a strong reputation for delivering quality constructional steel products in the UK and Irish structural steel market. The facility provides full-service capabilities and is equipped with the latest state-of-the-art manufacturing processes. The company's highly skilled workforce includes a directly employed site construction team. This offers significant benefits to clients with experienced, dedicated and capable personnel administering every part of the fabrication and construction process from initial scheme design, through detailing, specification and manufacture to the eventual handover of a quality product on site.

Severfield (Products & Processing) Limited

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

JSW Severfield Structures Limited**60,000** tonnes per year capacity **c.750** employees

The company, a 50:50 joint venture with JSW Steel (India's largest steel producer) which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the growing Indian market.

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

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

Composite Metal Flooring Limited

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

Strategic report

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How we create value

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

Our customers

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

Why they work with us

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

Our services

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

Design

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

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

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

Fabricate

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

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

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

Resources

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

Partners

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

Sustainable investment

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

Construct



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

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

Health and safety focus

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

 Read more about building a sustainable business on pages 46 to 57

Value generation

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

Our activities generate the following types of value:

Financial

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

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

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

Customer

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

Employee

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

Society

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

The markets we serve

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

UK

Marketplace

In 2017 (calendar year), the UK constructional steelwork market, as measured by the British Constructional Steelwork Association ('BCSA'), remains stable at c.900,000 tonnes (this equates to a market of approximately £1.7 billion). This follows three strong years of growth; four per cent growth in 2016, eight per cent growth in 2015 and four per cent growth in 2014.

During the year, we reorganised our factory operations in North Yorkshire, resulting in steel fabrication at Dalton and Sherburn being consolidated in our Dalton facility, and the establishment of a new business venture, Severfield (Products & Processing) Limited ('SPP'), to allow us to specialise in smaller scale projects. Following this reorganisation, the Group's potential production capability remains at approximately 150,000 tonnes, which represents c.17 per cent of 2017 UK structural steel production.

In 2018, Group revenue rose to an eight-year high of £274 million. This represents a third successive year of revenue growth, reinforcing our market-leading position and the continued evolution of our strategy.

Outlook

Market conditions have remained relatively stable during 2017. The market forecast prepared by the BCSA, suggests a return to growth in the short to medium-term, with total UK steelwork consumption of 950,000 tonnes forecast by 2020. This is assisted by UK government policy which is continuing to help drive a strong pipeline of major infrastructure projects, particularly in the transport sector. Over the next few years, we see significant opportunities to participate in these projects including HS2 (bridges and stations), UK airport expansion as well as the ongoing Network Rail and Highways England investment programmes, all of which have a significant steelwork content.

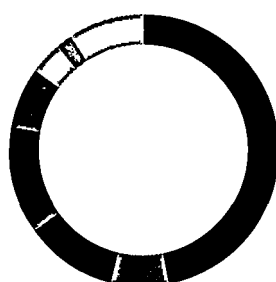
The mix of work within the market sectors that we target will be a key determinant of the Group's outlook. Larger, more complex projects will continue to offer strong opportunities and the Group continues to focus on operating efficiencies and has launched SPP to address smaller projects more competitively.

The market for data centres and industrial and distribution appears strong at present and although pricing remains competitive, the projects in these sectors play to our strengths requiring high-quality, rapid throughput, on time performance and full co-ordination between stakeholders.

Our sectors

The market sectors targeted by the Group, and their estimated size in tonnes during 2017, are shown below:

**Total market
tonnage 2017:
894,000 tonnes**



	Percentage	Tonnes
● Industrial and distribution	47%	419,000
● Infrastructure (including bridges)	7%	66,000
● Health and education	11%	101,000
● Commercial offices	13%	115,000
● Power and energy	7%	65,000
○ Stadia and leisure	4%	37,000
○ Retail	2%	17,000
○ Other	9%	74,000

The market for commercial offices, predominantly in London, is forecast by the BCSA to decline slightly over 2018 and 2019, although this will be offset by growth in the construction of commercial offices in regional cities, together with projects in the infrastructure, industrial and distribution, and data centre markets as previously described.

UK order book

The Group has a very healthy, well-diversified order book of £237m (1 June 2018) which represents approximately eight to ten months of annualised revenue. This reflects the anticipated increase in the order book from the June 2017 position of £229m.

The contract mix within the order book incorporates a diverse range of projects, including significant new orders secured in the year for a number of commercial office developments in London and in the regions, including the landmark contract for the new Google Headquarters at Kings Cross, the Engineering Campus Development at Manchester University, the Westfield Stratford City expansion, industrial and distribution projects for a variety of clients, together with two large data centres in the Republic of Ireland and Belgium.

Pipeline/prospects

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

Europe

During the year, the Group has successfully secured work in the Republic of Ireland and Belgium and is actively pursuing a number of other European opportunities following the development of our European business venture. Based in the Netherlands, our team is dedicated to tailoring our established UK offering for expansion into this market.

Group production

75,000 tonnes

Group potential capacity

150,000 tonnes

Total UK production of structural steelwork

894,000 tonnes

UK order book

£237m

Our market sectors

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

Core infrastructure sectors

Transport 5-10%

Group market share
(for infrastructure
including bridges)

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

Successes

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

Power and energy 5-10%

Group market share

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

Successes

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

Health and education <5%

Group market share

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

Successes

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

Key

Global market future trends:  Upward trend  Downward trend  No change

Core construction sectors

Commercial offices

20-30%

Group market share

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

Successes

22 Bishopsgate, Google UK Headquarters, The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, London Development Project, 60 London Wall, One Crown Place.

Industrial and distribution

5-10%

Group market share

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

Successes

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

Stadia and leisure

40-50%

Group market share

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

Successes

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

Retail

10-20%

Group market share

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

Successes

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

Data centres and other

5-10%

Group market share

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

Successes

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

Our strategy

Q&A with chief executive officer Alan Dunsmore

What do you view as the highlights of the year?

Alan: 2018 has been another strong year for the business. We have delivered a third successive year of revenue growth, underlying profit before tax has increased by 19 per cent and another year of positive cash generation has resulted in net funds of £33.0m at the year-end.

Based on these results, the board is recommending a final dividend of 1.7p per share and a special dividend of 1.7p per share. This reflects our current balance sheet strength and our confidence in the future prospects of the business.

What are your strategic priorities over the next few years?

Alan: We have continued to deliver on our strategic objectives in 2018, and we remain focused on our 2020 strategic profit target of £26m. This profit target is expected to be achieved with operating margins of between 8 and 10 per cent and it is pleasing to us that the 2018 operating margin of 8.3 per cent is now within this range for the first time.

We have continued to explore new areas for organic growth. During the year we launched our new business venture, Severfield (Products & Processing), to address smaller scale projects, we have commenced bidding for work in continental Europe and we are also targeting the medium to high-rise residential market where we have developed a steel solution.

What is your plan for JSSL, the Indian joint venture?

Alan: JSSL has continued to grow in 2018 and its profitability has improved. The market for structural steel in India has improved significantly over recent months and we are now seeing clear signs of the conversion from concrete to steel. Our Indian order book stands at £106m, a record high for the business, and we are seeing a growing pipeline of opportunities for higher margin commercial work. This positions JSSL well to deliver long-term profitable growth and to generate future value.

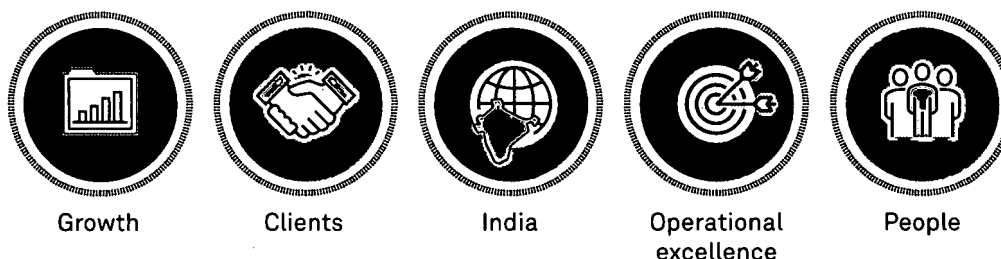
What is the outlook for 2019?

Alan: We continue to see a stable UK market, with modest economic growth forecast, and a good UK pipeline of opportunities. The market for data centres and industrial and distribution appears strong at present and our pipeline also includes a number of significant projects across the commercial office (both in London and outside) and infrastructure sectors. This, together with our high-quality and stable order book of £237m, means that we expect 2019 to be another year of progress for the Group.

Our vision is to be recognised as world-class leaders in structural steel.

We will deliver this vision through the Group's strategy which is supported by a focus on five key elements and assisted by our business improvement programme, *Smarter, Safer, more Sustainable*.

Group strategy



Smarter, Safer, more Sustainable

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

Smarter

Improve how we deliver our projects with speed, efficiency and accuracy

Safer

Continue our relentless focus on safety and always think 'safety first'

More Sustainable

Focus on working sustainably and reducing our energy consumption

WHAT WE'LL DO

Maximise our skill sets – operational excellence, quality and dealing with complexity.

Introduce new technology and equipment that enables safer ways of working.

Invest in technology that reduces our emissions.

WHAT THIS WILL MEAN FOR US

Continued development of our expertise and improve our offering to clients.

Safeguard employees, clients and shareholders.

Care for our environment whilst building our external reputation.

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

Safety, health and environment strategy

 Read more on our SHE strategy on pages 46 to 51

Our people strategy

 Read more on our people strategy on pages 52 to 57

Our strategy

Group strategy

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

Strategic pillars	Description	Link to KPIs	Link to principal risks
Growth 	Our aim is to capitalise on growth opportunities, both in the UK and in overseas markets, and to maximise our market share.	① ② ③ ④ ⑤ ⑥ ⑦	① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨
Clients 	By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.	① ② ③ ④ ⑤ ⑥ ⑦	① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨
India 	We continue to believe that the Indian market presents great opportunities for steel fabrication.	① ② ③ ④ ⑤ ⑥ ⑦	① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨
Operational excellence 	Our emphasis is on delivering high-quality projects and reducing costs by driving excellence through our core business processes.	① ② ③ ④ ⑤ ⑥ ⑦	① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨
People 	Our people are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals.	① ② ③ ④ ⑤ ⑥ ⑦	① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨

Key performance indicator reference number

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

Key to principal risks

- ① Health and safety
- ② Information technology resilience
- ③ Commercial and market environment
- ④ Mispricing a contract (at tender)
- ⑤ Failure to mitigate onerous contract terms
- ⑥ Supply chain
- ⑦ Indian joint venture
- ⑧ People
- ⑨ Industrial relations

The progress that we have made in delivering our strategy, together with how this strategy has been further developed in 2018 is set out below:



Growth

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Increase UK market share: growing profitable market share in areas where the business already operates.	We have grown Group revenues by five per cent (and by 36 per cent since 2015 when we first launched our strategic growth target), taking advantage of the Group's market-leading position. We have continued to focus on larger projects within our target markets, playing to our strengths of capability and capacity (delivering projects with revenues in excess of £20m for 22 Bishopsgate, Tottenham Hotspur, Wimbledon (new roof for number one court) and a major new commercial head office building in London). We also secured the landmark contract for the new Google Headquarters at Kings Cross.	To further grow Group revenues and maintain the quality of the order book. Focus on enhancing our position in existing UK markets where the Group already has specialist expertise (at good margins and with acceptable levels of risk).
Enter new UK market sectors: looking for new market areas where the business has not operated in the past, taking advantage of our existing capacity and capabilities.	We have continued our targeted approach with key UK infrastructure project owners, to exploit identified future growth opportunities (infrastructure and bridge markets). Our investment in CMF positions us as the only hot rolled steel fabricator in the UK to have a cold rolled manufacturing capability. We have expanded CMF's product range during the year to include purlins and other cold formed products.	Maintain our focus on infrastructure, taking account of our in-house bridge capability and historical record in transport infrastructure. This will leave us well positioned to take advantage of the strong future pipeline of major infrastructure projects in the transport and power and energy sectors (including HS2), all of which have a significant steel content.
Getting traction in Europe: driving more opportunities from European contractors with whom we have strong relationships in the UK and through our new European business venture.	In order to further develop our product offering we have launched a new business venture at Sherburn, Severfield (Products & Processing). This will provide processed steel and ancillary products to other fabricators who specialise in smaller projects. We have continued to develop our European business venture and have established a small team based in the Netherlands to support our new business development director. This has enabled us to focus on the tailoring of our established UK offering for expansion into this market. We are also targeting the market for medium to high-rise residential construction. During the year, we have continued to develop our residential solution and are close to securing our first orders.	Develop our new organic growth areas including our residential offering, Europe and Severfield (Products & Processing). This will also include the ongoing delivery of projects in new UK markets including regional and smaller mid-market opportunities. To continue the development of further cold formed steel opportunities and expanding the product range in CMF. The Group also continues to look for complementary acquisition and investment opportunities which support our plans for growth.

Our strategy



Clients

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Quality of service: our industry experience allows us to better understand our customers' own strategic objectives and enables us to design, fabricate and construct structural steelwork solutions to support these objectives.	We have continued to develop our relationships with key clients during the year. We take a long-term approach to relationships with our clients, aiming to deliver exceptional quality and service that encourages them to choose us on their next project. We have continued to work closely with our clients to ensure that projects run as smoothly as possible, site programmes are met and changes are well managed. We have also focused on developing new client relationships to target an increased pipeline of opportunities in both existing and adjacent markets.	Continue to deliver a quality, safe and efficient service to our clients. We will further focus on opportunities to improve client satisfaction and retention, and develop strategically important relationships with existing and new clients in our target markets in support of our growth plans. We will continue to seek to engage with our clients at an early stage to enhance our understanding of their requirements and to add value throughout the project life-cycle. We will explore innovative and collaborative ways of working that are mutually beneficial to us and our clients whilst ensuring that risk and reward are appropriately balanced.



India

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Sustainability of India: our aim is to ensure that the business develops a sustainable position whilst the market continues its conversion to steel.	The Indian business has continued to grow in 2018, performing steadily and profitably. This reflects good operational performance coupled with lower financing costs following the repayment of the term debt in June 2017. The market for structural steel in India has improved significantly over recent months and this position is reflected in the Indian order book of £106m and a growing pipeline of opportunities (particularly higher margin commercial work). We remain confident in the long-term development of the market. We believe that the business continues to have a solid foundation from which to deliver future profitable growth and value will continue to build in the business as it enters the next phase of its development.	In an improving market, we will target a better mix of work between commercial and industrial projects as we seek to grow the business and increase operating margins. The step up in market demand is likely to fill and exceed current factory and capacity levels which will need to be managed. We will continue to concentrate on business development opportunities, particularly with key commercial clients in targeted market sectors (including residential). We will continue to invest in and develop the local management team and workforce in support of a growing business.



Operational excellence

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Drive operational improvements and efficiencies: the objective of our comprehensive operational improvement programme is to improve the Group's risk assessment, operational and contract management processes.	Our profit performance in 2018 (underlying PBT was £23.5m) keeps us firmly on track to deliver our 2020 strategic profit target of £26m. We have also continued to improve our operating margin to 8.3 per cent in 2018 (2017: 7.5 per cent). 2018 operating profit has continued to benefit from the embedding of operational efficiencies across the Group through better risk and contract management processes and production process improvements, together with higher profits from certain project completions in the first half of the year. Our 'Smarter, Safer, more Sustainable' business improvement programme, which was launched in 2017, continues to drive improvements to our business processes, use of technology and operating efficiencies. In 2018, as part of this initiative, we reorganised our factory operations in North Yorkshire. This resulted in the consolidation of steel fabrication at Dalton and Sherburn into the Dalton facility and a new business venture, Severfield (Products & Processing) ('SPP'), being launched at Sherburn. The reorganisation will allow us to make more efficient use of our operational footprint in Yorkshire and also, through SPP, to address new smaller scale projects. We have completed the implementation of our new production management system which will assist in embedding operational efficiencies and improved factory processes and have also rolled out a Lean manufacturing programme.	Our target remains the achievement of underlying PBT of £26m by 2020. We will develop our 'Smarter, Safer, more Sustainable' business improvement programme and have recently established a dedicated 'SSS' team whose sole focus is on improving many aspects of our internal operations. We will continue to drive operational efficiencies following the establishment of the new manufacturing arrangements at Dalton. The roll out of the second phase of our production management system across the Group will support further improvements to estimating, production and contract and commercial management processes. This will help optimise processes between factories, production lines and projects. This improved profitability will continue to generate surplus cash flows and support future dividends, in accordance with the Group's business model.

Our strategy



Operational excellence

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Invest in market-leading technology: we will make this investment in the short and medium term in order to support the Group's ongoing requirements and for growth.	The Group's improvement programme has included further capital investment in 2018 of £6.4m, taking our capital investment in the business to £24m over a four-year period. The investment in 2018 represents further factory machinery, completion of the in-house painting projects at Lostock and Ballinamallard, office and yard improvements, a new trailer park and additional site construction machinery. We have continued to invest in research and development into advanced technologies. We have also established an engineering forum to identify new and innovative ways of working which are then embedded across the Group to become business as usual.	As part of the Group's capital investment programme, we will continue to invest at levels in excess of depreciation. This will include focused capital expenditure to target market opportunities and to maximise the benefits of our IT programme. We will continue to invest in new state-of-the-art manufacturing technology and in our research and development programme to help drive production efficiencies. We have project teams focusing on various areas of development including introducing Lean into the design process, refining our production planning system, developing collaborative tools to provide real-time support to our project and commercial teams and reducing waste in our coatings application. We will continue to upgrade and replace existing equipment where appropriate and to expand the capital equipment base where there is a strong return on investment case.



People

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

Strategic priorities	Achievements in 2018	Objectives for 2019
Develop our people: our aim is to attract and recruit the right person at every level and to keep them engaged so that we can deliver our goals and customer commitments whilst maintaining a safe working environment.	We recruited 221 people across the Group, strengthening a range of disciplines. This included the appointment of 21 apprentices in IT, maintenance, drawing office and fabrication/welding and 45 construction and production trainees. We rolled out our first Severfield development programme to 16 people. This programme will help us build sustainable leadership capability within our next generation of leaders. We implemented a training programme on Lean production techniques that has led to increased employee engagement and many employees developing new skills and achieving recognised qualifications. We have continued to review all internal communications across the Group. This included introducing further feedback opportunities for our employees, as well as creating and implementing new, more informative internal communication channels and messages suitable for all our internal audience groups, including a new newsletter and employee magazine. We have continued our behavioural safety training and awareness programme, the objective of which is to have a significant and lasting benefit on the Group's safety culture. We implemented an integrated Group-wide HR information system that has provided greater visibility of talent across the business and enabled us to make better people-related decisions.	We will continue to prioritise investment in our people (including in apprenticeships) to ensure a healthy pipeline of talent to achieve our strategic goals. We will implement a strategy to improve diversity and reduce our gender pay gap. We will implement a project management development programme to improve our management of risk and create a pipeline of talent to support growth. We will launch a further save as you earn ('SAYE') scheme to provide our employees with continued choice in the way in which they participate. This will support buy-in to the long-term success of the business and assist in employee retention. We are committed to a target of zero injuries and we will continue to apply the highest standards in health and safety across all operations to further improve the Group's AFR. We will continue to seek and exploit opportunities for increasing employee engagement. This will include the launch of a Group-wide intranet and an employee recognition scheme that underpins our values.

Key performance indicators

Reference number	KPI	Our performance	Why this is important
1	Underlying* operating profit and margin (before JVs and associates) 	2018  £22.9m at 8.3% 2017  £19.6m at 7.5% Underlying operating profit (before JVs and associates) has increased by 17%, reflecting increased revenues and an increase in the margin of 0.8%	This is the principal measure used to assess the success of the Group's strategy. We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our investors.
2	Underlying* basic earnings per share ('EPS') 	2018  6.4p 2017  5.5p EPS growth was 15%	EPS is one of the key metrics in measuring shareholder value and a performance condition of the Group's performance share plan ('PSP'). The measure reflects all aspects of the income statement including the performance of India and the management of the Group's tax rate.
3	Revenue growth	2018  £274.2m 2017  £262.2m Revenue has increased by 5%, reflecting an increase in order flow, activity and steel prices	This is a key measure for the business to track our overall success in specific contract activity, our progress in increasing our market share and our ability to maintain appropriate pricing levels.
4	Operating cash conversion 	2018  77% 2017  112% Cash conversion is slightly below the 85% target following the unwind of advance payments in the year	Cash is critical for providing the financial resources to develop the Group's business and to provide adequate working capital to operate smoothly. This measures how successful we are in converting profit to cash through management of working capital and capital expenditure.
5	Return on capital employed ('ROCE')	2018  16.5% 2017  14.6% ROCE has improved by 1.9% and continues to exceed the 10% target	ROCE measures the return generated on the capital we have invested in the business and reflects our ability to add shareholder value over the long term. We have an asset-intensive business model and ROCE reflects how productively we deploy those capital resources.
6	Order book	2018  £237m 2017  £229m The UK order book has increased by 3% since June 2017	The order book is a key part of our focus on building long-term recurring revenue. It is an important measure of our success in winning new work. Whilst the revenue within the order book is reported externally, the margin inherent within the order book is monitored internally to provide visibility of future earnings.
7	Accident frequency rate ('AFR') 	2018  0.22 2017  0.24 The AFR remains within the Group's target for 2018 of 0.26	This is an industry-standard measure of the safe operation of our business and is one of a number of health and safety measures the Group uses to monitor its activities.



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

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

How we calculate	What we target
Underlying operating profit is defined as operating profit before non-underlying items and the results of JVs and associates. Underlying operating margin is calculated as underlying operating profit expressed as a percentage of revenue.  See the consolidated income statement on page 126	Our target is to double 2016 underlying profit before tax by 2020. Our aim is to generate operating margins of between 8 per cent and 10 per cent in line with those required to achieve our 2020 profit target of £26m.
EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.  See note 10 of the consolidated financial statements on page 144	Our aim is to maximise sustainable EPS growth.
This represents the year-on-year percentage change in revenue from Group operations as reported in the accounts. The effects of acquisitions and disposals will be removed from this measure. No such adjustments were made to the current or prior year revenues.	To grow revenue year-on-year in line with our strategic objectives.
Operating cash conversion is defined as cash generated from operations after net capital expenditure (before interest and tax) expressed as a percentage of underlying operating profit (before JVs and associates).  See note 24 of the consolidated financial statements on page 157	We target a conversion rate of 85 per cent as a base level of achievement, subject to future capital investment made to position the Group for further growth.
ROCE is calculated as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds.  See note 20 of the consolidated financial statements on page 150	We aim to deliver ROCE which is in excess of 10 per cent over the whole economic cycle.
Our UK order book shows the total value of future revenue secured by contractual agreements.	We aim to build a good quality order book which supports the achievement of our strategic targets.
AFR is equivalent to one reportable lost-time incident resulting in more than three working days' absence per 100,000 hours worked, which equates to approximately one working lifetime.	We are committed to a target of zero injuries in the medium term.

Our operating performance

The Group has delivered another year of strong profit growth.

Group overview

The Group has delivered another year of strong profit growth in 2018, driven by a combination of revenue growth and continued improvements in UK operational performance, together with another profitable year from our Indian joint venture.

In 2018, we have continued to grow our revenue which has increased by five per cent to £274.2m (2017: £262.2m) and are very pleased with our profit performance with underlying profit before tax up 19 per cent to £23.5m (2017: £19.8m). Year-end net funds were £33.0m (2017: £32.6m) and another year of positive cash generation has further strengthened our balance sheet whilst providing us with the flexibility to invest in our UK businesses and in India, where the term debt was repaid in June 2017.

The market position for our Indian joint venture, JSSL, has improved significantly over recent months and this is reflected in its record order book of £106m and a growing pipeline of commercial opportunities, all of which will benefit the business in 2019 and beyond. In 2018, JSSL continued to perform profitably. Good operational performance and lower financing costs, following the repayment of the term debt, have resulted in the Group's share of profit after tax of £0.5m (2017: £0.2m).

We continue to exceed our ROCE target of 10 per cent and have achieved an improved return of 16.5 per cent in the year (2017: 14.6 per cent), maintaining the Group's alignment with its construction and engineering clients and peers.

We have continued to make good progress during the year towards our strategic targets, including the doubling of 2016 underlying profit before tax to £26m by 2020. Based on this progress, I am delighted that the board is recommending an increase in the final dividend to 1.7p per share, making a total for the year of 2.6p per share (2017: 2.3p per share), a 13 per cent increase on the prior year. Furthermore, the board is also recommending a special dividend of 1.7p per share, which reflects our current balance sheet strength and confidence in the future prospects of the business and delivers a total cash return for shareholders of 4.3p per share.

Alan Dunsmore
Chief executive officer

UK review

Revenue is up five per cent over the prior year, predominantly reflecting an increase in order flow and production activity, together with an increase in steel prices. During the year, we have continued to work on four large projects in London, each of which has project revenues in excess of £20m. These include three projects where work is ongoing and will continue into the next financial year, namely the new stadium for Tottenham Hotspur, the retractable roof for Wimbledon No. 1 Court and a new commercial office tower at 22 Bishopsgate. The fourth large project worked on during the year, which is now substantially complete, is for a major new commercial head office building in London.

Our operating margins have improved again to 8.3 per cent (2017: 7.5 per cent), resulting in an underlying operating profit (before JVs and associates) of £22.9m (2017: £19.6m). When we set our strategic 2020 profit target back in 2016, we anticipated that this would be achieved with revenues in the range of £270m to £300m and operating margins in the range of 8 to 10 per cent, depending on the mix of projects in the order book at the time. It is pleasing to us that the 2018 operating margin of 8.3 per cent is now within this strategic margin range for the first time, demonstrating that we remain firmly on course to achieve our strategic profit target.

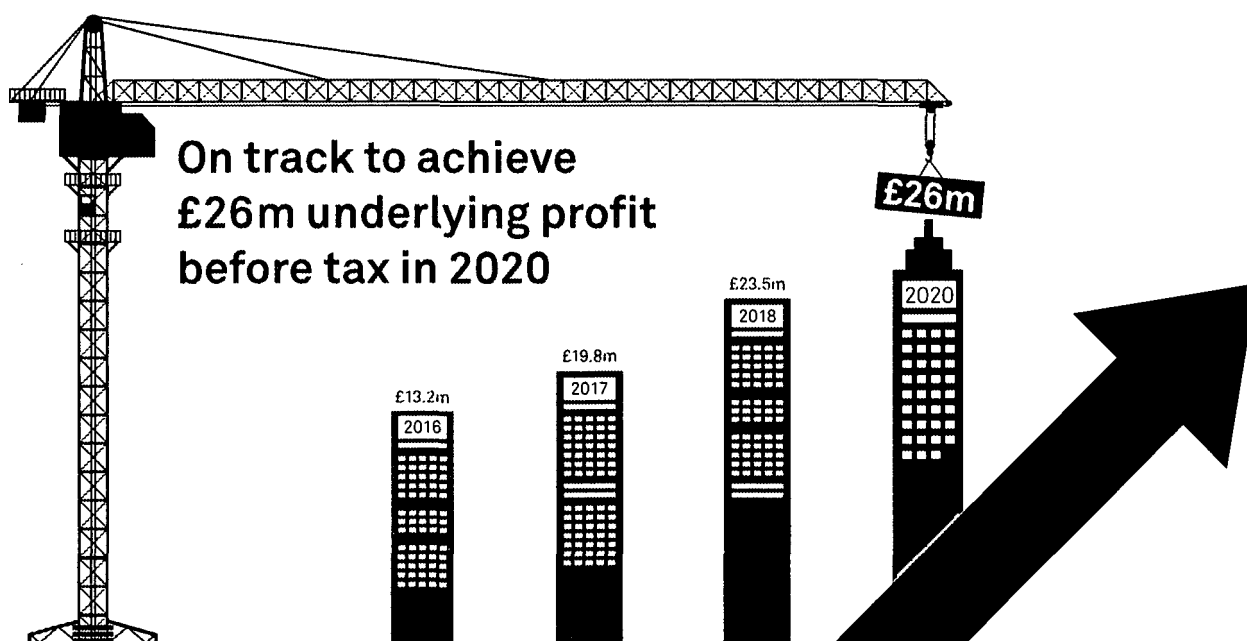
The operating margin has continued to benefit from improvements to our operational execution, including further developments to our factory processes to drive efficiencies and reduce costs, as well as better risk and contract management processes. In many cases, this execution improvement only becomes apparent towards the end of a contract and this is reflected in the improved 2018 results, together with higher profits from certain project completions which mainly benefitted the first half of the year.

Operational improvements implemented during the period include the continued roll-out of a new Group-wide production management system, the opening of our new paint facilities at Lostock and Ballinamallard which will shorten lead times, improve quality and reduce reliance on external suppliers, further investment in our factories and bridge capability to improve speed and efficiency and the upgrade of our haulage facilities at Dalton.

'Smarter, Safer, more Sustainable'

The Group continues to be shaped by the programme of projects launched in the previous year under the banner of 'Smarter, Safer, more Sustainable' which provides a framework for the ongoing improvements to our business processes, use of technology and operating efficiencies. Developments in 2018 include the launch of our Lean manufacturing programme and the establishment of a dedicated 'SSS' team to focus on improving many aspects of our internal operations.

Building from a strong foundation



Our operating performance

In January 2018, to drive further operational improvements in line with the Group's strategy, we reorganised our factory operations in North Yorkshire. This resulted in steel fabrication at Dalton and Sherburn being consolidated into the Dalton facility, making better use of our operational footprint in Yorkshire, and the establishment of a new business venture in Sherburn, Severfield (Products & Processing) ('SPP'). SPP, which commenced trading in April 2018, has allowed us to address smaller scale projects, a segment of the market which we have not historically focused on. The business provides a one-stop shop to fabricators who specialise in smaller projects to source processed steel and ancillary products, all delivered to the Group's high standards of quality and service.

Underpinning our culture of continuous improvement is the ongoing focus on the training and development of our people and our priority is to recruit, train and retain the highest calibre of workforce. Notwithstanding Ian Lawson's departure which required us to implement our succession plans, the continued stability in our organisational structure and management team has been a key strength of the business for a number of years. During the year, we recruited over 200 people across the Group, strengthening a range of disciplines including our commercial and project management teams. We believe that the recruitment and training of graduates and apprentices is fundamental to business development, another means of ensuring that we have all the desired skill bases available in the future. During 2018, we recruited 66 apprentices and continue to invest in graduate trainees through our apprenticeship and graduate recruitment programmes.

In 2017, demonstrating our ongoing commitment to people development, we launched our Lean manufacturing programme and the Severfield development programme, which focuses on emerging leaders. In 2018, we have continued to develop and support our people to apply Lean manufacturing techniques to develop new skills, achieve new qualifications and, as part of the 'Smarter, Safer, more Sustainable' initiative, continually improve our businesses and client offering. The first cohort of employees have now completed the Severfield development programme, aimed at developing and deepening our management talent, which has delivered clear benefits both for the business and the people involved.

During 2018, to further improve efficiencies and client service, we have continued to invest in research and development into advanced technologies. We have also established an engineering forum to identify new and innovative ways of working which can then be embedded across the Group to become business as usual.

Clients

Working closely with our clients and project stakeholders, we continue to demonstrate our capability to deliver complex design solutions and, in 2018, we have designed and delivered some of the most complex engineering solutions in the industry. Our management and integration of the construction process, our capacity and speed of fabrication and our use of technology has allowed us to improve project delivery times as well as meeting and often exceeding client service expectations. We have worked with a number of clients using innovative and collaborative ways of contracting which have enabled cost effective solutions to be developed to meet project challenges.

Our client base, which represents a broad range of sectors and regions, includes Multiplex, Sir Robert McAlpine, LeadLease, Balfour Beatty, BAM, Skanska, Mace, Laing O'Rourke, Canary Wharf Contractors, McLaren, Winvic, Morgan Sindall, Stanhope, Buckingham, Vinci, Readie, Galliford Try, Hitachi, ISG, Interserve, Bowmer and Kirkland, John Sisk, John Graham, Hochtief and Westfield. The Group worked on over 100 projects with our clients during the year including:

Major projects – over £20 million	- Wimbledon (No. 1 Court roof), London - Tottenham Hotspur, London - London Development Project, London 22 Bishopsgate, London
Commercial offices	- Southbank Place, London - Snowhill, Birmingham - JLR Gaydon Triangle, Midlands - North Wharf Road, London - Shard Place, London
Industrial and distribution	- Amazon, East Midlands - Amazon, Bolton - Large warehouse, Milton Keynes - Large distribution centre, Tilbury
Transport infrastructure	- Ordsall Chord, Manchester - London Bridge Station Canopies, London - Chiswick Bridge, London - Ely Southern Bridge, Cambridgeshire
Health and education	- Graphene Innovation Centre, Manchester - Manchester Engineering Campus Development - Kings College Hospital, London
Data centres	Large data centres, Dublin and Belgium
Power and energy	- Dunbar, Scotland - Ferrybridge, Yorkshire

Case study

Severfield development programme

In 2017, we launched the Severfield development programme, which is aimed at developing and deepening our management talent across the Group. This programme focuses on leadership skills and providing participants the opportunity to work across different business units on business improvement projects identified by the board. The first group of employees has now completed the 2018 programme, including Martin Clyne, a senior project manager at Severfield (UK) Limited:

"The programme, which was delivered by three tailored week-long workshops over a period of ten months, encouraged professional growth and included 16 participants selected from across each of the Group's businesses. Whilst the training and development of employees has always been an important part of the Group's culture, this programme took a more structured approach and focused on building new relationships, learning from our colleagues from other parts of the Group, personal impact, leadership skills, strategic and commercial awareness (particularly of new and emerging markets), leading and influencing change and improving our presentational skills. Each workshop was tailored to push us beyond our comfort zone, through challenging and 'out of the box' practical activities and assignments.

The programme also provided us with a fantastic opportunity to get to know each other as individuals outside of the busy work environment and gain an understanding of each other's daily challenges and aspirations. This has helped to build strong relationships and has created a close network of managers with an enhanced understanding and appreciation of good leadership."

The programme has delivered clear benefits both for the business and the people involved and, in 2019, we intend to identify the second group of employees to participate in it.

Case study

Strategic capital investment – T&I machine

The Group continues to drive efficiency improvements by investing in world-class technology. During the year, the Group completed the installation of a brand new £2m state-of-the-art 'T & I' plate girder line at its production facility in Lostock. In combination with our highly-skilled team specialising in structural bridgework, this will improve our bridge capability and positions us well to take advantage of a strong pipeline of major infrastructure projects which is being driven by UK government policy.

The new plate girder line assembles flat plates into the distinctive top 'T' sections and the vertical 'I' sections and is the biggest of its kind in the UK, capable of fabricating steel beams of up to 3.5 metres in depth and 1.5 metres in width. This investment supplements our existing plate girder lines at Severfield (UK)'s other production site at Dalton, North Yorkshire and following further investment in our on-site paint shops at Lostock and Ballinamallard, will enable Severfield to deliver up to 95 per cent of the current bridge market steelwork requirements.

Commenting on the new investment, Severfield (UK) managing director, Gary Wintersgill, said: "The investment at our facility in Lostock will enable us to build on our capability as the UK's largest bridge provider and deliver not only the volumes required by the market, but also the productivity benefits from modern state-of-the-art equipment."

Our operating performance

Our specialist cold rolled steel joint venture business, CMF, performed well during the year, having a beneficial impact both on operating margins and the share of results from JVs and associates. We continue to be the only hot rolled steel fabricator in the UK to have this cold rolled manufacturing capability, which has now been expanded to include purlins and additional cold formed products, allowing the Group to further integrate elements of its supply chain.

The remedial bolt replacement works at Leadenhall were completed in 2017 with the total expenditure being in line with the non-underlying charge made in 2015.

Discussions continue with all stakeholders to determine where the financial liability for the remedial costs should ultimately rest.

Order book and market conditions

The UK order book at 1 June 2018 of £237m is consistent with the level that it has been for the past six months and reflects the anticipated increase from the position of £229m at the time of announcing the 2017 full year results. The order book, of which £200m is for delivery over the next 12 months, remains in line with our 'normal' order book levels, which typically equate to eight to ten months of annualised revenue. This provides us with good visibility of earnings into the next financial year and supports continued progress towards our strategic targets.

The order book contains a healthy mix of projects across a diverse range of sectors including commercial offices, industrial and distribution, data centres and retail. Significant new orders secured during the year include a number of commercial office developments in London and in the regions, including the landmark contract for the new Google Headquarters at Kings Cross, the Engineering Campus Development at Manchester University, the Westfield Stratford City expansion, industrial and distribution projects for a variety of clients, together with two large data centres in the Republic of Ireland and Belgium.

The Google project, which was awarded in December 2017, represents an order in excess of £50m and will require us to provide over 15,000 tonnes of structural steelwork for a new eleven storey head office building. Work is scheduled to commence on-site in the second half of the 2019 financial year.

Despite the uncertainties of Brexit, we continue to see a stable UK market, with modest economic growth forecast, and a pipeline of potential future orders that remains good. This pipeline includes a number of significant projects in the coming months across the commercial offices (both in London and outside), retail, industrial and distribution, data centres and infrastructure sectors. The market for data centres and industrial and distribution appears strong at present and although pricing remains competitive, the projects in these sectors play to our strengths, requiring high-quality, rapid throughput, on-time performance and

full co-ordination between stakeholders. Furthermore, we are seeing the continued re-emergence of the market in the Republic of Ireland, where we have historically had a strong presence, as well as a number of opportunities in mainland Europe.

In February 2018, in response to recent changes in the mix of work being experienced by the Group, which is substantially changing the requirement for steel fabrication at our Lostock and Dalton facilities, we transitioned a number of job roles from Lostock to Dalton. These changes will allow us to enhance our market-leading position, whilst continuing to provide our clients and stakeholders with a high-quality cost-effective product and service.

Looking further ahead, UK government policy is helping to drive a strong pipeline of major infrastructure projects, particularly in the transport sector including HS2 stations and bridges, the expansion of Heathrow airport as well as the ongoing Network Rail and Highways England investment programmes. The combination of our in-house bridge capability, which has seen significant investment over recent years, and our historical record in transport infrastructure, leaves us well positioned to win work from such projects, all of which have a significant steel content.

India

In 2018, our Indian joint venture, JSSL, continued to grow, performing steadily and profitably. The business, once again, generated strong operating margins of 9.2 per cent (2017: 9.7 per cent) and a profit after tax, of which the Group's share is £0.5m (2017: £0.2m). The improved profitability in 2018 reflects both the good operational performance of the business coupled with lower financing costs following the repayment of the joint venture's term debt of £11.0m in June 2017.

The market for structural steel in India has improved significantly over recent months and we are now seeing clear signs of the conversion from concrete to steel which is vital to the long-term growth and value of JSSL. These market developments are evident in JSSL's record order book of £106m at 1 June 2018, which has increased significantly recently and compares favourably to the order book of £73m at 1 June 2017. There is also a growing pipeline of opportunities which mainly comprises higher margin commercial projects, where we now have visibility of a large number of potentially interesting developments, as well as industrial work, including for our joint venture partner, JSW Steel, which is seeking to substantially increase its domestic steel output in the short to medium term. The step up in the

pipeline of opportunities is expected to benefit the business in the 2019 financial year and beyond, with demand at these levels likely to fill and exceed our current factory capacity levels. Accordingly, in tandem with our joint venture partner, we are currently reviewing certain incremental investment options for the business.

Overall, we remain confident in the long-term development of the market and of the business, especially considering the recent market upturn and step up in the order book. We believe that the business continues to have a solid foundation from which to deliver future profitable growth, and value will continue to build in the business as it enters the next phase of its development.

Business investment

The Group has invested £6.4m in capital expenditure during the year (2017: £7.0m) representing the continuation of the Group's capital investment programme. The capital expenditure includes further investment in the new in-house painting facilities at Lostock and Ballinamallard, new equipment for our fabrication lines, further enhancement of our in-house fleet of on-site construction equipment and improvements to our site infrastructure and staff welfare facilities.

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

Safety

We are committed to the safety of all who come into contact with our business and over the past three years we have seen an improvement in our overall safety performance. The Group's accident frequency rate ('AFR') for the year, which includes our Indian joint venture, was 0.22, compared to 0.24 recorded last year, which represents another year-on-year improvement. This improvement was again driven by our UK operations which reduced from 0.42 to 0.40 in the year. Whilst year-on-year improvements continue, health and safety continues to be central to all of the Group's activities and our strategic programme of activities and improvements has supported progress in the year.

Our operating performance

All members of our board, once again, participated in site safety visits during the year and we continue to further develop the monitoring and analysis of all safety-related incidents, including near misses, high potential incidents and also minor injuries for prevention programmes and campaigns. We have commenced the next stage of our behavioural safety programme and are now seeing further enhancements around behaviour and cultural change.

Our occupational health programme continues to evolve with focus on prevention measures. We have further developed awareness and support protocols on mental and physical health-related issues. In light of this, in addition to supporting the Mates in Mind charitable programme we will also be signing up to the Build UK charter to improve and promote positive mental health in construction.

Sustainability remains a key part of the Group's strategy, aiming to create visible leadership and objectives at all levels and to all stakeholders. A number of projects have been identified and progressed through an established working group, for example emergency lighting upgrades.

Strategy

We have continued to deliver on our strategic objectives. During the year, as part of the 'Smarter, Safer, more Sustainable' programme, we have implemented a number of improvement initiatives aimed at business processes and operating efficiencies (including the reorganisation of our North Yorkshire factory operations), use of technology and new product development all set within our framework of robust risk management and control. We also continue to work closely with our existing client base, as well as developing new client relationships to target an increased pipeline of opportunities, to ensure that we are meeting their ever-changing requirements.

We continue to adopt an integrated solutions mindset, listening to clients' operational challenges and then designing a package of solutions to help them achieve their goals. Our engineers and designers remain focused on key areas such as value engineering, health and safety through design and the use of more cost-effective and innovative steel solutions, all for the benefit of our clients.

We are now actively pursuing three new areas of organic growth. During the year, we launched our new business venture at Sherburn, Severfield (Products & Processing), which commenced trading in April 2018. We continued to develop our European business venture and have commenced bidding for work in continental Europe, assisted by the new business development director who has now established a small team based in the Netherlands. Finally, we are also targeting the market for medium to high-rise residential construction where we have developed a steel solution. In 2018, we have performed extensive market testing, have had positive discussions with interested parties and believe that we are now close to securing our first order.

Summary and outlook

The strong performance of the Group has continued into 2018, with good revenue and profit growth supported by strong cash generation. The strategic and operational progress that we have made over recent years gives us confidence that the Group is well placed to deliver sustainable future profitable growth. With a high-quality and stable order book of £237m and a strong UK pipeline of opportunities, we expect 2019 to be another year of progress in the UK.

In India, a significantly improving market position, a record order book of £106m and a growing pipeline of commercial opportunities, positions the business well to deliver future profitable growth. It is this improvement in the market which will really drive long-term value in the business and, in tandem with our joint venture partner, we are currently reviewing certain incremental investment options for the business as it enters the next phase of its development.

Overall, both the performance of the UK business and the Indian joint venture are consistent with the continued progress towards our strategic targets, including the doubling of 2016 underlying profit before tax to £26m by 2020.

Finally, I would like to thank all of our employees for their high level of commitment and professionalism during 2018, particularly during a period of change for some of our businesses, which has contributed to another successful year for the Group.

Alan Dunsmore
Chief executive officer
20 June 2018



Our financial performance

We have a strong and flexible balance sheet which underpins our plans for the future.

	2018	2017
Revenue	£274.2m	£262.2m
Underlying* operating profit (before JVs and associates)	£22.9m	£19.6m
Underlying* operating margin (before JVs and associates)	8.3%	7.5%
Underlying* profit before tax	£23.5m	£19.8m
Underlying* basic earnings per share	6.4p	5.5p
Operating profit (before JVs and associates)	£21.5m	£17.8m
Profit before tax	£22.2m	£18.1m
Basic earnings per share	6.1p	5.1p
Return on capital employed ('ROCE')	16.5%	14.6%

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

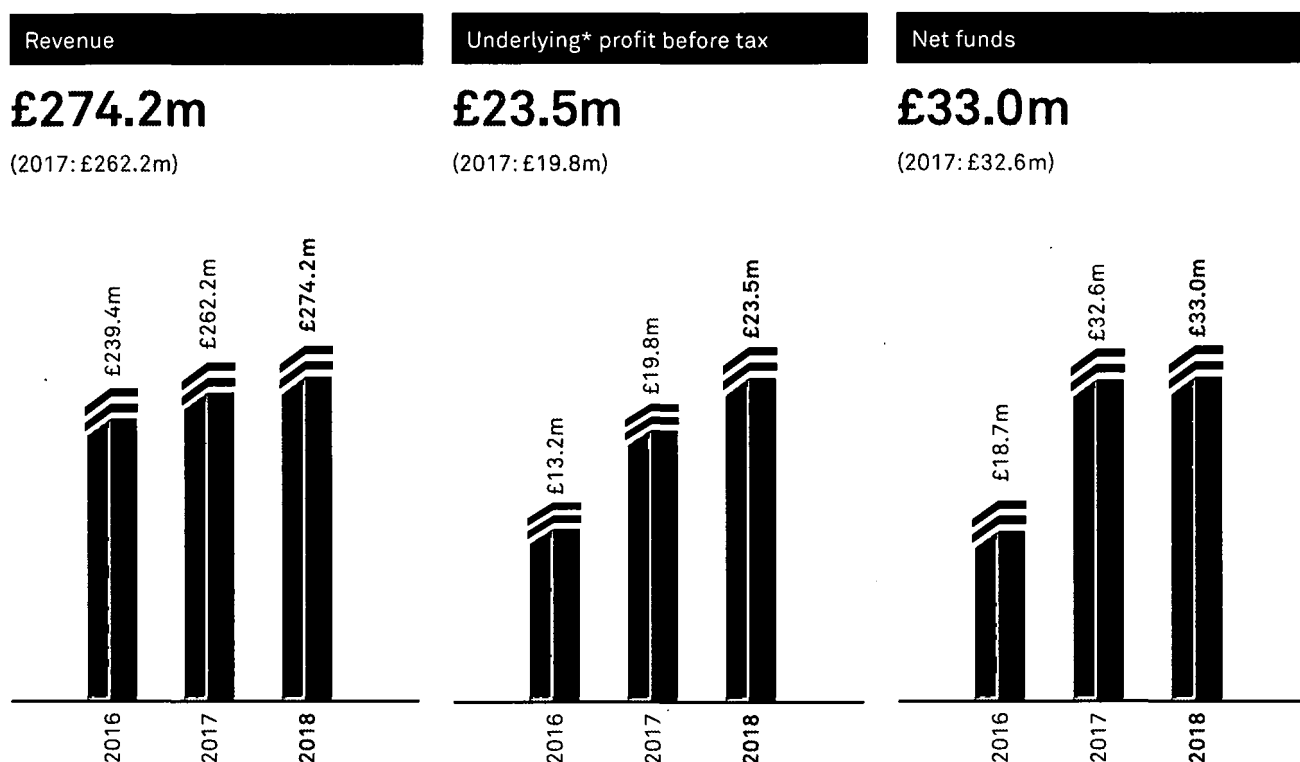
Trading performance

In 2018, we delivered a strong financial performance. Revenue for the year ended 31 March 2018 of £274.2m represents an increase of £12.0m (five per cent) compared with the previous year. This is a result of increase in production activity during the year (we continue to work on four large projects with revenues in excess of £20m), together with an increase in steel prices. The Group's order book at 1 June 2018 of £237m (1 June 2017: £229m) remains in line with our normal order book levels, which typically equate to eight to ten months of annualised revenue.

 Read our Group financials on pages 126 to 162

 Read our Company financials on pages 164 to 170

Adam Semple
Group finance director



Underlying operating profit (before JVs and associates) of £22.9m (2017: £19.6m) reflects an increased underlying operating margin (before JVs and associates) of 8.3 per cent (2017: 7.5 per cent). The operating margin has continued to benefit from the embedding of operational efficiencies across the Group through better risk and contract management processes and production process improvements combined with higher profits from certain project completions which mainly benefitted in the first half of the year. The statutory operating profit (before JVs and associates), which includes the Group's non-underlying items, was £21.5m (2017: £17.8m).

The share of results of JVs and associates was a profit of £0.9m (2017: £0.5m) and net finance costs were £0.2m (2017: £0.2m).

Underlying profit before tax, which is management's primary measure of Group profitability, was £23.5m (2017: £19.8m). The statutory profit before tax, reflecting both underlying and non-underlying items, was £22.2m (2017: £18.1m).

Share of results of JVs and associates

The Group's share of results from its Indian joint venture was a profit of £0.5m (2017: £0.2m), reflecting another year of profitability for the business. The profit is the result of a stable operating margin of 9.2 per cent (2017: 9.7 per cent),

reflecting continued good operating performance, coupled with lower financing costs following the repayment of the joint venture's term debt in June 2017.

Our specialist cold rolled steel joint venture business, CMF, contributed a Group share of profit of £0.4m (2017: £0.3m). Having successfully integrated the metal decking supply into our operations in the prior year, CMF has invested further during the year. We continue to be the only hot rolled steel fabricator in the UK to have this cold rolled manufacturing capability, which has now been expanded to allow the production of purlins and additional cold formed products. This has further increased the value offering and profit contribution from the business.

Non-underlying items

Non-underlying items for the year of £1.3m (2017: £1.8m) comprised:

- Amortisation of acquired intangible assets – £1.3m (2017: £2.6m)
- Movement in fair value of derivative financial instruments – £nil (2017: gain of £0.8m)

Non-underlying items are classified as such as they do not form part of the profit monitored in the ongoing management of the Group.

Our financial performance

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

In the prior year, a non-cash profit on derivative financial instruments of £0.8m was recognised in relation to the movement in fair values of foreign exchange contracts. No similar items have been recorded in the income statement for the current year following the adoption of hedge accounting at the 2017 financial year-end.

The associated tax impact of the above, together with the impact of a reduction in future corporation tax rates on deferred tax liabilities, was £0.4m (2017: £0.6m).

Finance costs

Net finance costs in the year were £0.2m (2017: £0.2m). The Group has been in a net funds position for the whole of the financial year; consequently, the finance costs of £0.2m primarily represent non-utilisation fees for the revolving credit facility and the amortisation of capitalised transaction costs associated with the refinancing in 2014.

Taxation

The Group's underlying taxable profits (which excludes results from the JVs and associates) of £22.6m (2017: £19.4m) resulted in an underlying tax charge of £4.4m (2017: £3.3m). This represented an effective tax rate of 19.4 per cent (2017: 17.1 per cent). The lower prior year effective tax rate reflected the recognition of deferred tax assets on historical trading losses. These losses are now fully utilised.

The total tax charge for the year of £4.0m (2017: £2.7m) reflects the underlying tax charge, offset by deferred tax benefits arising from the amortisation of intangible assets in the year, and also the benefit of the future reduction in UK corporation tax to 17 per cent in 2021 for certain deferred tax items. These rate changes are categorised as non-underlying and are included in non-underlying items.

Earnings per share

Underlying basic earnings per share increased by 15 per cent to 6.4p (2017: 5.5p) based on the underlying profit after tax of £19.1m (2017: £16.5m) and the weighted average number of shares in issue of 299.7m (2017: 298.9m). Basic earnings per share, which is based on the statutory profit after tax, was 6.1p (2017: 5.1p), this growth reflects the increased profit after tax and a reduction in non-underlying items. Diluted earnings per share, including the effect of the Group's performance share plan, was 6.0p (2017: 5.1p).

Dividend and capital structure

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

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

The board is recommending a final dividend of 1.7p (2017: 1.6p) per share payable on 14 September 2018 to shareholders on the register at the close of business on 17 August 2018. This, together with the Group's interim dividend of 0.9p (2017: 0.7p) per share, will result in a total dividend per share for 2018 of 2.6p (2017: 2.3p), an increase on the prior year of 13 per cent. In addition, the board is also recommending a special dividend of 1.7p per share (2017: nil). The final and special dividends are not reflected on the balance sheet at 31 March 2018 as they remain subject to shareholder approval.

Goodwill and intangible assets

Goodwill on the balance sheet is valued at £54.7m (2017: £54.7m). In accordance with IFRS, an annual impairment review has been performed. No impairment was required either during the year ended 31 March 2018 or the year ended 31 March 2017.

Other intangible assets on the balance sheet are recorded at £0.1m (2017: £1.6m). The reduction in the year primarily represents the remaining intangible assets (customer relationships) identified on the acquisition of Fisher Engineering in 2007 being fully amortised. Amortisation of £1.5m (2017: £2.9m) was charged in the year.

Capital investment

The Group has property, plant and equipment of £81.2m (2017: £78.9m).

Capital expenditure of £6.4m (2017: £7.0m) represents the continuation of the Group's capital investment programme. This included continued investment in the painting facilities at Lostock and Ballinamallard, new equipment for our fabrication lines, further enhancement of our in-house fleet of construction site equipment, a new trailer park and improvements to our sites and staff welfare facilities. Depreciation in the year was £3.7m (2017: £3.6m).

Joint ventures

The carrying value of our investment in joint ventures and associates was £18.5m (2017: £12.1m) which consists of the investment in India of £10.7m (2017: £4.6m) and in CMF Limited of £7.9m (2017: £7.5m). During the year, we invested additional equity investment of £5.5m in the Indian joint venture business to support the full repayment of the joint venture's term debt of £11.0m in June 2017.

Pensions

The Group has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £17.2m at 31 March 2018 (2017: £21.4m). The decrease in the liability is primarily the result of changes to the scheme's demographic assumptions (mainly updated mortality assumptions) and ongoing deficit contributions by the Group during the year. The triennial funding valuation of the scheme is currently ongoing, with a valuation date of 5 April 2017. All other pension arrangements in the Group are of a defined contribution nature.

Shareholders' funds

Shareholders' funds at 31 March 2018 were £169.0m (2017: £154.2m). This equates to a total equity value per share at 31 March 2018 of 56p, compared to 52p at the end of 2017. The increase is primarily due to the increase in profit after tax for the year and a decrease in the IAS 19 deficit on the Group's defined benefit pension scheme.

Return on capital employed

The Group adopts ROCE as a KPI to help ensure that its strategy and associated investment decisions recognise the underlying cost of capital of the business. The Group's ROCE is defined as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2018, ROCE was 16.5 per cent (2017: 14.6 per cent) which exceeds the Group's target of 10 per cent through the economic cycle.

Cash flow

	2018	2017
Operating cash flow (before working capital movements)	£26.7m	£25.1m
Cash generated from operations	£23.0m	£27.4m
Operating cash conversion	77%	112%
Net funds	£33.0m	£32.6m

The Group has always placed a high priority on cash generation and the active management of working capital. The Group finished the year with net funds of £33.0m (2017: £32.6m), following dividend payments of £7.5m, capital expenditure of £6.4m and the investment of additional equity into the Indian joint venture of £5.5m.

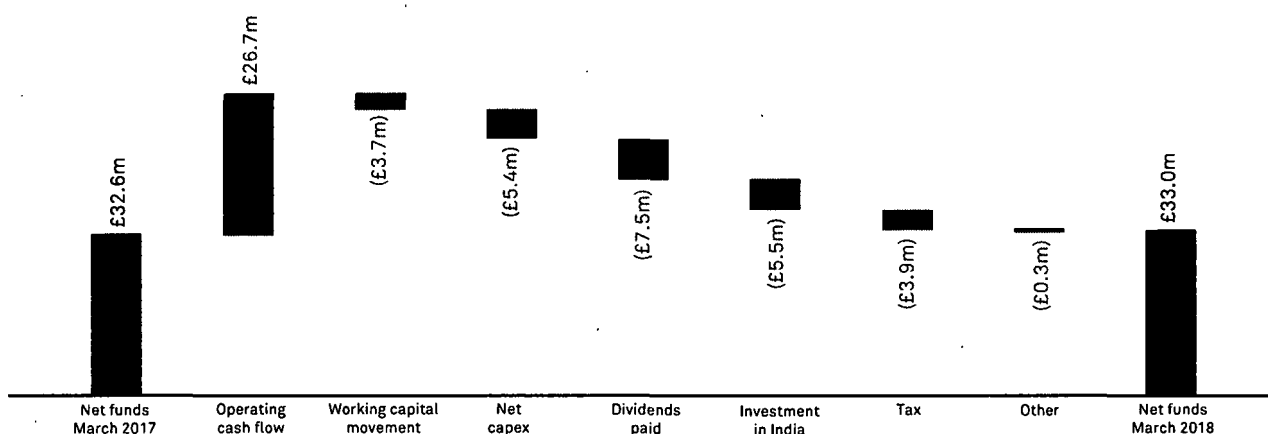
Operating cash flow for the year before working capital movements was £26.7m (2017: £25.1m). Net working capital increased by £3.7m during the year, mainly as a result of the unwinding of advance payments from customers. Excluding advance payments, year-end net working capital represented approximately two per cent of revenue (2017: two per cent). This is lower than the four to six per cent range which we have been targeting, mainly as a result of good payment terms on certain ongoing contracts and a continued focus on working capital management.

In 2018, our cash generation KPI shows a conversion of 77 per cent (2017: 112 per cent) of underlying operating profit (before JVs and associates) into operating cash (cash generated from operations less net capital expenditure). This is below our target conversion of 85 per cent largely as a result of the unwinding of advance payments as described above.

Net investment during the year was £5.4m, reflecting capital expenditure of £6.4m less proceeds from disposals of £1.0m.

Our financial performance

Net funds bridge – year ended 31 March 2018



Bank facilities committed until 2019

The Group has a £25m borrowing facility with HSBC and Yorkshire Bank, with an accordion facility of a further £20m available at the Group's request. There are two key financial covenants, with net debt: EBITDA of <2.5x, and interest cover of >4x. The Group operated well within these covenant limits throughout the year ended 31 March 2018.

Due to the continued strong cash performance of the Group, the facilities were not utilised during the year and continue to provide ongoing funding headroom and financial security for the Group. At the time of this report, the Group has commenced discussions with its lenders to secure new facilities replacing the above facilities which are committed until July 2019.

Treasury

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

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

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

hedging positions, thereby mitigating the impact of market value changes in the income statement.

IFRS 15

The Group has undertaken a detailed exercise comparing the current revenue recognition policies against the requirements of IFRS 15, the new revenue accounting standard which becomes effective for the Group's 2019 year-end. This assessment involved identifying the significant areas of difference and quantifying their effect on a sample of different types of contract to ensure that the impact of the new standard is fully understood and acted upon in advance of the effective date. The conclusion of this assessment is that the directors are satisfied that no material adjustments will be required on the initial application of the new standard. It is intended that the standard will be implemented with full retrospective application in the Group's 2019 financial statements.

Impact of Brexit

Following the decision to leave the European Union ('EU'), the UK government continues to review and negotiate the terms of the UK's future relationship with the EU. Although this has the potential to change the competitive and commercial landscape for the Group and the construction industry as a whole, the extent of this is likely to remain unclear for some time. To date, the decision to leave the EU has not had a significant impact on the Group but we remain vigilant to respond to any such changes in market conditions.

Adam Semple
Group finance director
20 June 2018

Going concern

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

- The UK order book, and the pipeline of potential future orders;
- The Group's operational improvement programme which has delivered stronger financial performance and is expected to continue doing so in the 2019 financial year and beyond;

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code (the 'Code'), the directors have assessed the Group's viability over a three-year period ending on 31 March 2021. The starting point in making this assessment was the annual strategic planning process. While this process and associated financial projections cover a period of five years, the first three years of the plan are considered to contain all of the key underlying assumptions that will provide the most appropriate information on which to assess the Group's viability.

This assessment also considered:

- The programmes associated with the majority of the Group's most significant construction contracts, the execution period of which is normally less than three years;
 - The good visibility of the Group's future revenues for the next three years which is provided by external forecasts for the construction market, market surveys and our own order book and pipeline of opportunities (prospects).
- In making their assessment, the directors took account of the Group's strategy, current strong financial position, recent and planned investments, together with the Group's main committed bank facilities. These committed bank facilities mature in July 2019. Notwithstanding the Group's current net funds position of £33.0m, the directors draw attention to

- The Group's net funds position and its bank finance facilities which are committed until July 2019, including both the level of those facilities and the covenants attached to them.
- Based on the above and having made appropriate enquiries and reviewed medium-term cash forecasts, the directors consider it reasonable to assume that the Group has adequate resources to continue for at least 12 months from the approval of the financial statements and therefore that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The key assumption that there is a reasonable expectation that the facilities will be renewed at the appropriate time and that there will not be a significant reduction in the level of facilities made available to the Group or a significant change in the pricing.

The directors assessed the potential financial and operational impact of possible scenarios resulting from the crystallisation of one or more of the principal risks described on pages 62 to 68 as well as taking into consideration recent issues (such as recent corporate failures) that are relevant to the industry sector in which the Group operates. In particular, the impact of a reduction in margin of 25 per cent, a reduction in revenue of 25 per cent, a deterioration in working capital (the extension of customer payment terms by one month), a period of business interruption (two months with no factory production) and a significant one-off event resulting in a cost to the Group of £15m. The range of scenarios tested was considered in detail by the directors, taking account of the probability of occurrence and the effectiveness of likely mitigation actions.

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

Building a sustainable business

Sustainability underpins our business model. It benefits our operational effectiveness and protects our reputation.

Smarter, Safer, more Sustainable

Smarter, Safer, more Sustainable, our business improvement programme, represents the consolidation of all of the Group's ongoing improvement projects, established to help us in achieving the Group's overall strategy. This programme illustrates how our commitment to sustainability underpins our business model and strategy. We believe that by investing in our projects, training and technology to empower our

people to work Smarter, Safer and more Sustainably, this will assist us in securing our future as the market leader in structural steel.

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

SMARTER, SAFER, MORE SUSTAINABLE

securing our future

 Read more about how **Smarter, Safer, more Sustainable** supports **our strategy** on page 23

Our sustainability priorities include health and safety, reductions in environmental impacts, people development and engagement, innovation, supply chain governance including human rights and modern slavery, and supporting communities and charities.

Safety, health and environment

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

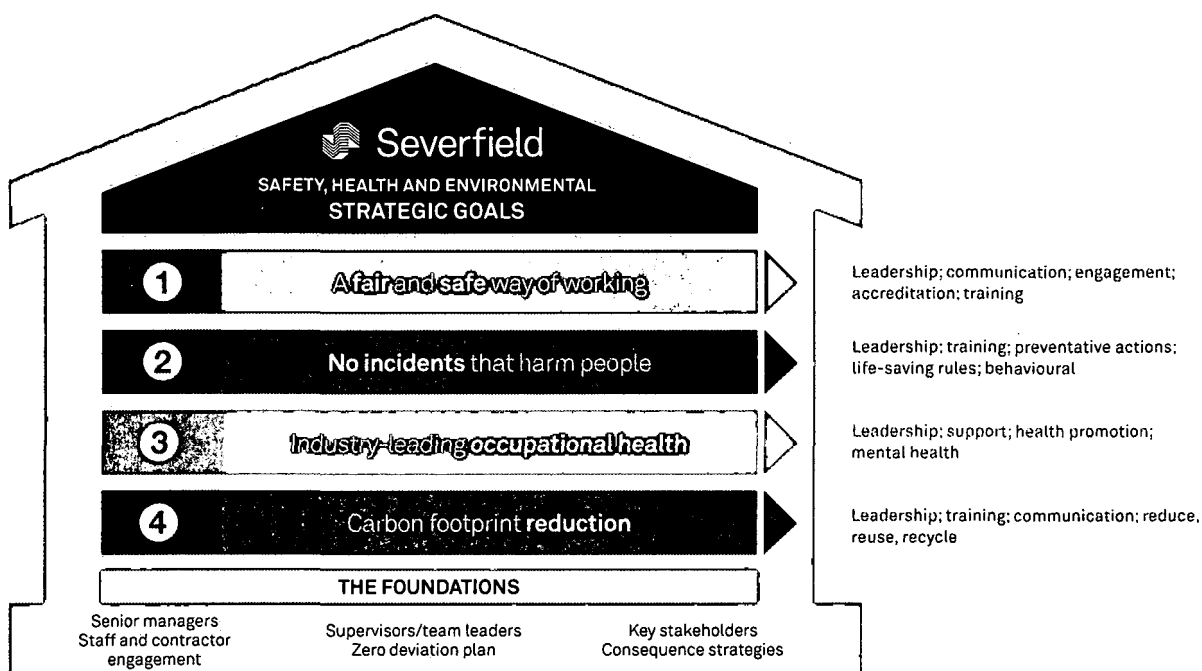
It is encouraging to see that our health and safety performance has, for a second consecutive year, continued to improve with an accident frequency rate ('AFR') of 0.22, which includes an AFR of 0.40 for our UK operations. In order to further support our reduction and prevention of incidents programme, we have introduced further monitoring mechanisms of total incident frequency rate ('IFR') and high potential incident rate ('HiPo').

During the year, we have introduced new initiatives and schemes which include the introduction of bump caps into our factories following consultation and support from our employees, the establishment of a group of mental health first aiders and a safety calendar where the pictures were designed by children of our employees.

The next phase of the behavioural safety programme has been completed with sessions to be undertaken with all involved to establish a way forward to ensure continued progression and development into the future.

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

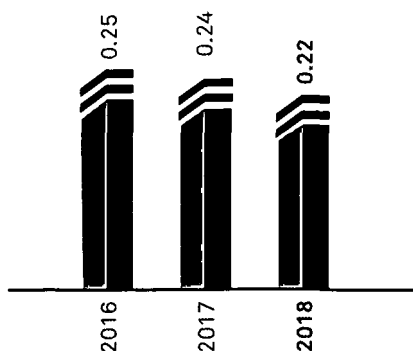
Strategic goals



Group AFR

0.22

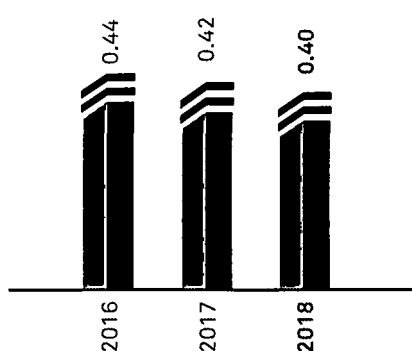
(2017: 0.24)



UK operations AFR

0.40

(2017: 0.42)



Building a sustainable business

1 A fair and safe way of working

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

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

The introduction of our six 'life saving rules' clearly communicates our expectations around particular high-risk areas of our day-to-day work to further prevent incidents.

These rules will also underpin our 'just and fair' culture within the behavioural safety programme:

1	Fundamentals	Always wear appropriate personal protective equipment and do not carry out a task unless you are trained and authorised to do so. Make sure you assess the risks involved and guard against them.
2	Working at height	When working at height, protect yourself and others against a fall and always use fall protection safety equipment.
3	Control of lifting operations	Ensure all lifting operations are planned and executed safely. Make sure the lifting device is capable of lifting the load. Never allow anyone to be in the drop zone of the load.
4	Machine safety	Always make sure the machine is fit for purpose.
5	Vehicle movement	Always follow the traffic rules, wear your seatbelt, keep within speed limits, and do not use handheld phones whilst driving. Pedestrians must always use designated walkways.
6	Material stability	Ensure all material is stable and adhere to the appropriate Red Tag risk assessment system in our factories.

2 No incidents that harm people

We continue to improve the facilities and working environment in all our factories in addition to engaging with our clients to improve site conditions and working areas.

Accident and investigation training remained a focus across the disciplines to ensure root causes are clearly identified and actioned to prevent further occurrences. The extension of investigations from accidents to near misses with a high potential for harm, which further highlight preventative measures, has been a success with clearer actions and prevention measures being put in place.

During the year, 188 directors' site tours were undertaken. This was considerably more than our target and 70 more than was achieved in the previous year. These have shown a clear commitment and drive for SHE policies across all areas of the business.

We have delivered over 2,800 SHE training courses during the year, with additional focus to ensure our internal courses are both bespoke and industry-leading. In 2018, the average number of SHE training days per employee was 2.0 (2017: 2.3).

A large number of employees across the Group have undertaken behavioural safety coaching training, which has empowered them to be an integral part of the culture change within the business. The success of the programme has been underlined by the fact that many employees have requested continued involvement in the programme in the future.

3 Industry-leading occupational health

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

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

A health and well-being strategy will be developed and implemented in the next year to further enhance the occupational health provision, including positive mental health awareness and development aspects.

Building a sustainable business

4 Carbon footprint reduction

Sustainability's triple bottom line

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

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

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

Sustainability committee

In the year we have fully established the terms of reference for our sustainability committee with the agreed set of targets and objectives being:

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

For 2019, further improvements and initiatives will be implemented to further reduce our environmental impact whilst also reducing costs to the business.

Climate disclosure project

The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds. In 2018, we achieved a C rating for the global evaluation standard, the Climate Disclosure Project ('CDP'), in line with the industry average rating of C.

The annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emission reductions, as well as transparency and verification of reported data. It assesses the completeness and quality of the Group's measurement and management of carbon footprint, climate change strategy, risk management processes and outcomes. We have an action plan in place, which includes the external verification of certain reports, to enable us to achieve a B rating in 2019.

Environmental performance

The Group maintains its environmental management system accreditation to ISO 14001:2015. Information on our environmental impact is collated monthly and is reported to the board. All our work and project sites operate in accordance with our sustainability policies. We track our sustainability performance on a project-by-project basis and, where required, report information to our clients.

Greenhouse gas emissions reporting

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

In 2018, our combined Scope 1 and 2 emissions have increased by three per cent from the previous year. This is largely due to a higher usage of heating oil across our Yorkshire factories, in what was a harsh winter for the region, leading to an overall increase in Scope 1 emissions by 19 per cent. We have again successfully reduced our absolute Scope 2 carbon emissions by 13 per cent from the previous year by continuing to focus on energy efficiency across the Group. Our intensity ratio per £m of revenue has decreased by two per cent from 40.5 to 39.8. We will continue to review our carbon emissions going forward and assess any reduction programmes which will further reduce our carbon footprint where possible.

For the year ended 31 March 2018, the Group's global GHG emissions were as follows:

	Tonnes of CO ₂ e	
Emissions from:	2018	2017
Scope 1 – combustion of fuel and operation of facilities	6,244	5,231
Scope 2 – electricity, heat, steam and cooling purchased for own use	4,667	5,390
Total CO₂e emissions	10,911	10,621
Intensity measurement:	2018	2017
Absolute tonnes equivalent CO₂e per £m of revenue	39.8	40.5

Innovation

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

Our continued investment in technology and research will ensure the future growth of the business whilst continuing to drive efficiency and improvements in service, adding value for our customers. We have also established an engineering forum to identify new and innovative ways of working which can then be embedded across the Group to become business as usual.

Quality and accreditations

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

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

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

Building a sustainable business

The attraction of the best and brightest talent, their engagement, development, reward and recognition are critical to building a sustainable and profitable business.



People

Attract

We will attract the best and brightest talent

Our focus continues to be on attracting, recruiting and retaining the best and brightest talent. During the year, we recruited 221 people, strengthening a range of disciplines across the Group.

We are passionate about helping young people take their first step onto the construction career ladder, from school leavers experiencing the world of work for the first time, to graduates qualified in disciplines relevant to the construction sector. We believe that the recruitment and training of apprentices is fundamental to business development; another means of ensuring that we have all the desired skill bases available in the future. This has been underpinned by the recruitment of 66 apprentices and trainees in 2018 across the Group (2017: 39), continuing our trend of recruiting at least ten apprentices each year since our dedicated apprenticeship programme launched in 2010. We will continue to invest in apprenticeships during 2019 and beyond.

We provided opportunities for 42 existing employees to gain recognised qualifications whilst they worked through their apprenticeships, in disciplines such as project management and business improvement techniques, through our Lean programme for continuous improvement.

In 2018, we continued to recruit graduates and reiterated our commitment to providing opportunities for undergraduates via work placements across several functions including business support, quantity surveying, design engineering, site management and project management. We also provide support to individuals who are undertaking further and higher-level qualifications and working towards membership of professional bodies including the Institution of Civil Engineers ('ICE'), the Institution of Structural Engineers and The Royal Institution of Chartered Surveyors.

As well as ensuring that we attract and recruit the best and brightest talent, we must also retain that talent. In 2018, voluntary labour turnover was 8.6 per cent (2017: 7.9 per cent).

Equal opportunities and diversity

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

Our policy is that recruitment, training, career development and promotion of people with a protected characteristic, should as far as possible, be identical to that of other applicants without the characteristic. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged where necessary.

In March 2018, we published our first Gender Pay Gap Report for two of our business units that are in scope of the Equality Act 2010.



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

Our median gender pay gap of 29 per cent provides a benchmark that enables us to drive improvement in inclusivity and diversity across the Group over the next couple of years. We are confident that our gender pay gap does not stem from paying men and women differently for the same or equivalent work. Rather our gender pay gap is a result of the fact that the structural steel and construction sectors (and in particular senior leadership roles within these sectors, which attract the higher levels of pay) are male-dominated.

Our gender pay gap also reflects wider issues. In the UK, only 25 per cent of graduates in science, technology, engineering and mathematics ('STEM') are women and only 14 per cent are graduates of engineering and technology. We are committed to addressing this by promoting STEM subjects to all young people, aiming to increase the number of women in trainee STEM roles and by changing the perception of STEM careers. By doing this, we aim to encourage more young women to follow a career in our industry to create a diverse talent pipeline.

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

Building a sustainable business

Engage and perform

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

We have continued to review all internal communications across the Group. This included introducing further feedback opportunities for our employees, as well as creating and implementing new, more informative internal communication channels suitable for all our internal audience groups. During the year, we have successfully launched our internal newsletter, Steel Reel, and quarterly employee magazine, Skyline, both of which have provided the Group with an important platform in which to recognise and reward our employees' achievements.

Internal communication and employee engagement will continue to be a focus for the next year, with the development of a company intranet currently underway. We will continue to encourage our employees to use our newly developed internal communication channels to share their stories and celebrate Group successes.

We continued to encourage our people to become shareholders and launched our second save as you earn scheme ('SAYE') in June 2017. Over 64 per cent of our employees are now shareholders via our Share Incentive Plans ('SIP') and SAYE schemes. We were delighted at this level of participation and recognise this as a clear sign of our people being engaged with our business. We plan to launch our third SAYE scheme following the maturity of our first scheme in June 2018.

In 2019, we will continue to look for ways to improve employee engagement and participation.

Reward and recognise

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

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

All our employees are eligible to participate in the Severfield plc pension scheme (defined contribution). Employees also have the option to make their own contributions through salary sacrifice. We continue to facilitate flexible benefits that enable our people to access programmes and savings that would not be available to them on an individual basis without additional cost. This includes cycle to work, childcare vouchers and discount schemes.

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

We recognise and reward the loyalty of our people and in 2018, nine staff celebrated 25 years' service, bringing our 25-year club to 115 members.

Pictured: The Ordsall Chord project team awarded the 'large community and heritage project' winner at the 2018 annual ICE North West civil engineering awards

Develop, grow and lead

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

In 2018, we encouraged our employees to take an active role in identifying their own learning needs and to take responsibility for their own development through our personal development review ('PDR') process. This process provides a focus on behaviours in line with our values as well as assessment of performance and identification of development needs. In the coming year, we plan to work with our leaders and managers to continue developing the PDR process.

We have invested over 1.3 per cent of our payroll costs in learning and development activities. The main areas of focus were:

Management development

We have published an internal brochure to communicate the availability of learning and development opportunities amongst all our employees. Additional training modules now include coaching skills, team-building, giving and receiving feedback and tackling difficult conversations.

Graduate programme

We continued our ICE-accredited graduate programme which provides graduates from engineering and technical disciplines with the opportunity to work across all areas of our business and on external secondments (where appropriate), enabling them to gain a broad understanding of the various disciplines and acquiring the skill sets required for chartered membership of the ICE.

Leadership development

Leadership development is vital for our business and as part of this programme, we have continued to roll out the 360-degree feedback process throughout our director population.

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

We have also introduced executive coaching as a trial for a small number of executives within the business and will evaluate this on an individual, team and business performance level.

Succession and talent management

To protect the long-term success of our business we want to ensure that we understand our talent pipeline and support development so that our people reach their full potential. We have conducted a full review of key roles within the business and identified possible medium-term successors for the majority of roles. Action plans are in place to address gaps in knowledge and experience to meet our priority business needs and ensure there is a pipeline of talent for internal progression.

In April 2017, we launched the first Severfield development programme to fast track the development of 16 talented managers. This programme focused on the development of personal impact and leadership skills, strategic and commercial awareness and provided the opportunity to work across different business units by working on Group-wide business improvement projects identified by the board. The programme has delivered clear business benefits, achieved its objective of fast tracking the development of its participants and been well received by participants. In 2019, the business intends to identify the next group of participants for a second cohort.

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

Building a sustainable business

Well-being

We will promote health and well-being to our people

In 2018, we provided all employees with the opportunity to access health check appointments, not just those employees that require health surveillance to ensure fitness for safety-critical roles.

Building on our involvement with Mates in Mind, we have commenced the first stages of a mental health awareness programme with the training and development of nine personnel as mental health first aiders. In the coming year, we will continue to develop our well-being strategy with a focus on raising awareness through a calendar of events throughout the year.

We recognise that employees' financial worries can be a major cause of mental ill health and that failing to save for retirement can result in employees working beyond their desired retirement date which can lead to reduced performance. Consequently, in 2018, in conjunction with our pension scheme administrators, we ran a programme of saving for retirement awareness sessions to educate our employees and encourage them to contribute more into their pension. In the coming year, we will widen our focus to include general financial awareness and living within a budget.

Business integrity

Human rights

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

The Modern Slavery Act places a duty on companies to make a public statement on the steps they have taken to minimise the possibility of slavery or human trafficking happening in their own business or in their supply chain. We believe that this risk can be effectively managed, and we continue to make a number of phased improvements to our supply chain pre-qualification and audit processes to make them as robust as possible. Further details of the Company's approach to modern slavery and its updated Modern Slavery Act transparency statement for 2018 can be accessed at www.severfield.com.

General Data Protection Regulation ('GDPR')

GDPR replaces the Data Protection Act 1998 in the UK and has been designed to harmonise data privacy laws across Europe, to protect all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy. We take GDPR seriously and are working with the business and its supply chain to ensure individuals' personal information is handled in compliance with the legislation.

Communities

At Severfield we pride ourselves on our commitment to supporting local charitable initiatives as well as engaging with the communities close to our sites. Throughout 2018, the Group has continued to take part in many activities across the country, promoting career and apprenticeship opportunities for young people within the business.

We also have a number of employees from across the Group that are STEM ambassadors. Their aim is to encourage students to take on, and enjoy, STEM subjects during their time at school and college. Throughout the last 12 months the Group has supported a number of STEM events, including hosting a visit from a number of engineering apprentices from Stadt Regensburg in Germany, as part of the Erasmus Programme. Furthermore, we welcomed students from Manchester University into our Lostock production facility to see first-hand the type of engineering work carried out in our factories. Severfield has also supported 'STEM days' at local schools, encouraging young people to consider careers in engineering.

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

Severfield employees have also been committed to raising funds for a number of local and national charities, including Prostate Cancer UK, Bolton Hospice, St. Catherine's (Scarborough), Breast Cancer Now, the Yorkshire Air Ambulance, Cancer Connect NI, Fermanagh Stroke Associations, Jengana, and SANDS.

The Severfield Foundation

The Severfield Foundation ('the Foundation'), our registered charitable incorporated organisation, continues to be successful in raising funds and awareness for charitable bodies throughout the UK. The Foundation is run by its trustees, who are all employees of the Group, and since its incorporation in 2016, the Foundation has raised over £100,000 for both national and regional charities.

The Foundation supports one main 'partner' charity as well as several local charities chosen by each Group company (decided by our employees at each location). In 2018, our partnership with Prostate Cancer UK carried on for a second year and has continued to provide our employees with the opportunity to take part in major sporting events such as the London and Berlin marathons, the Great North Run and RideLondon Surrey 100. With the Severfield workforce being predominantly male, Prostate Cancer UK is very relevant to our Company.

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



The Foundation publishes its own annual report which can be found at:

www.severfield.com/about-us/the-severfield-foundation

How we manage risk

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

Risk appetite

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

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

The Group establishes its risk appetite through use of delegated authorities so that matters considered higher risk require the approval of senior management or the board. These include, but are not limited to, tender pricing, bid submissions, approval of contract variations and final account settlements, capital requirements, procurement, and certain legal and strategic matters.

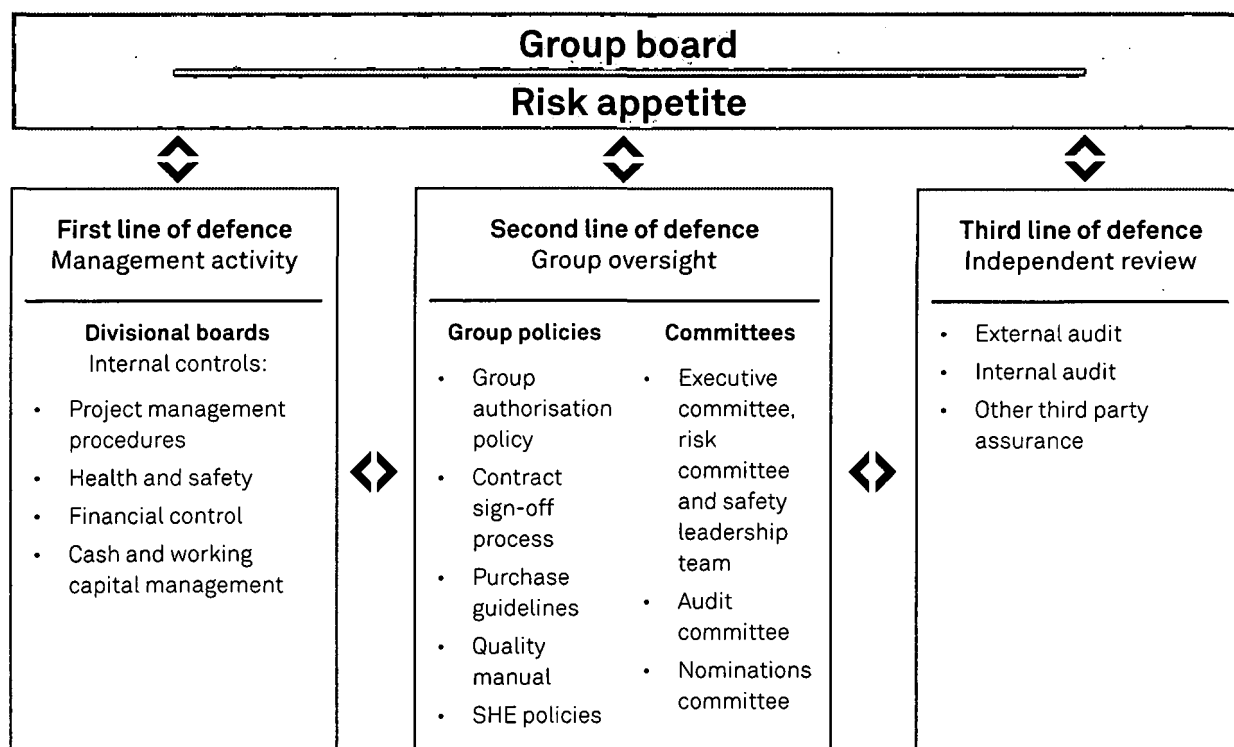
Risk management process

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

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

- Senior management from all key disciplines and businesses within the Group continue to be involved in the process of risk assessment and monitoring in order to identify and assess Group objectives, key issues and controls. Further reviews are performed to identify and monitor those risks relevant to the Group as a whole. This process feeds into our assessment of long-term viability and encompasses all aspects of risk, including operational, compliance, financial, strategic, environmental, social and governance ('ESG') issues.
- Identified risk events, their causes and possible consequences are recorded in risk registers. Their likelihood and potential business impact and the control systems that are in place to manage them are analysed and, if required, additional actions are developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing these risks within an agreed timetable.

- Ongoing risk management and assurance is provided through various monitoring reviews and reporting mechanisms, including the executive risk committee (chaired by the chief executive officer) which convenes on a weekly basis and has the primary responsibility to identify, monitor and control significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from a variety of sources on a regular basis.
- Subsidiary company boards consider and report on risk on a monthly basis as part of the monthly business review process. This process is followed to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.
- On a quarterly basis, the significant risks identified by the Group's businesses are discussed in detail with each management team. In addition, the chief executive officer, Group legal director and Group IT director meet on a quarterly basis to review IT risks facing the Group. The outcome of these discussions is collated and reported to the executive committee.
- The risk registers of each business, together with the Group IT risk register, are updated and, together with a consolidated Group risk register compiled by the executive committee, are reported to the audit committee twice yearly, to ensure that adequate information in relation to risk management matters is available to the board and to allow board members the opportunity to challenge and review the risks identified and to consider in detail the various impacts of the risks and the mitigations in place.
- A Group assurance map is used to co-ordinate the various assurance providers within the Group and a compliance framework provides the board with a ready reference tool for monitoring compliance across the Group.



How we manage risk

Three lines of defence

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

A. First line of defence: management activity

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

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

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

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

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

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

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

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

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

B. Second line of defence: Group oversight

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

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

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

The following main committees provide oversight of management activities:

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

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

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

C. Third line of defence: independent review

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

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

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

Annual review of effectiveness

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

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

Changes to principal risks

The following changes have been made to the Group's principal risks in 2018:

- **Information technology resilience** risk (cyber attack or property damage leads to IT disruption with resultant loss of data, loss of systems functionality and business disruption) has been upgraded from medium to high, reflecting the increasing global information security threats including cybersecurity attacks, malicious code intended to gain access to confidential information and viruses.
- **Failure to mitigate onerous contract terms** risk (the failure to adequately manage contract risk and adhere to Group policies and, as a result, commit to obligations which the Group is unable to meet without incurring significant unexpected costs). This was previously identified as a risk in 2014 and is a risk which we constantly monitor. It can vary between low and medium risk depending on the mix of contract work in our order book.

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

How we manage risk

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

Principal risk	Strategic pillars	Link to KPIs	Movement	Scoring
1 Health and safety	   	1 2 3 4 5 6 7	→	●
2 Information technology resilience	  	1 2 3 4 5 6 7	↑	●
3 Commercial and market environment	   	1 2 3 4 5 6 7	→	●
4 Mispricing a contract (at tender)	  	1 2 3 4 5 6 7	→	●
5 Failure to mitigate onerous contract terms	  	1 2 3 4 5 6 7	↑	●
6 Supply chain	  	1 2 3 4 5 6 7	→	●
7 Indian joint venture		1 2 3 4 5 6 7	→	●
8 People		1 2 3 4 5 6 7	→	●
9 Industrial relations	  	1 2 3 4 5 6 7	→	●

Strategic pillar key



KPI key

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

Movement

- ↑ Upward trend
- ↓ Downward trend
- No change

Scoring

- High
- Medium

Scoring

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

How we manage risk

2018 principal risks

Scoring ● High ● Medium

1 Health and safety ●

Description

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

Impact

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

Mitigation

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

2 Information technology resilience ●

Description

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

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

Impact

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

Mitigation

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

3 Commercial and market environment ●

Description

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

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

Impact

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

Mitigation

- Regular reviews of market trends performed (as part of the Group's annual strategic planning and market review process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively.
- Regular monitoring and reporting of financial performance, orders secured, prospects and the conversion rate of the pipeline of opportunities and marshalling of market opportunities is undertaken on a co-ordinated Group-wide basis.

- Selection of opportunities that will provide sustainable margins and repeat business.
- Strategic planning is undertaken to identify and focus on the addressable market (including new overseas and domestic opportunities).
- Development of new organic revenue streams including in-Europe, residential and Severfield (Products & Processing) which fit the Group's risk appetite.
- Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients.
- Close engagement with both customers and suppliers and monitoring of payment cycles.
- Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts.
- Continuing use of credit insurance to minimise impact of customer failure.
- Strong balance sheet (the Group has net funds in excess of £30m) supports the business through fluctuations in the economic conditions of the sector.

4 Mispricing a contract (at tender) ●

Description

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

Impact

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

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

Mitigation

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

How we manage risk

5 Failure to mitigate onerous contract terms

Description

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

Impact

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

Mitigation

- The Group has identified minimum standard terms which mitigate contract risk.
- Robust tendering process with detailed legal and commercial review and approval of proposed contractual terms at a senior level (including the risk committee) are required before contract acceptance so that onerous terms are challenged, removed or mitigated as appropriate.
- Regular contract audits are performed to ensure contract acceptance and approval procedures have been adhered to.
- We have worked with the British Constructional Steelwork Association to raise awareness of onerous terms across the industry.

6 Supply chain

Description

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

Impact

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

Mitigation

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

7 Indian joint venture

Description

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

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

Impact

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

Mitigation

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

8 People

Description

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

Impact

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

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

Mitigation

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

How we manage risk

9 Industrial relations ●

Description

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

Impact

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

Mitigation

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

Strategic report approval

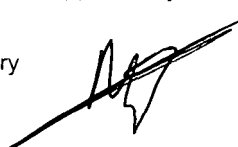
The Group's strategic report is set out on pages 16 to 68.

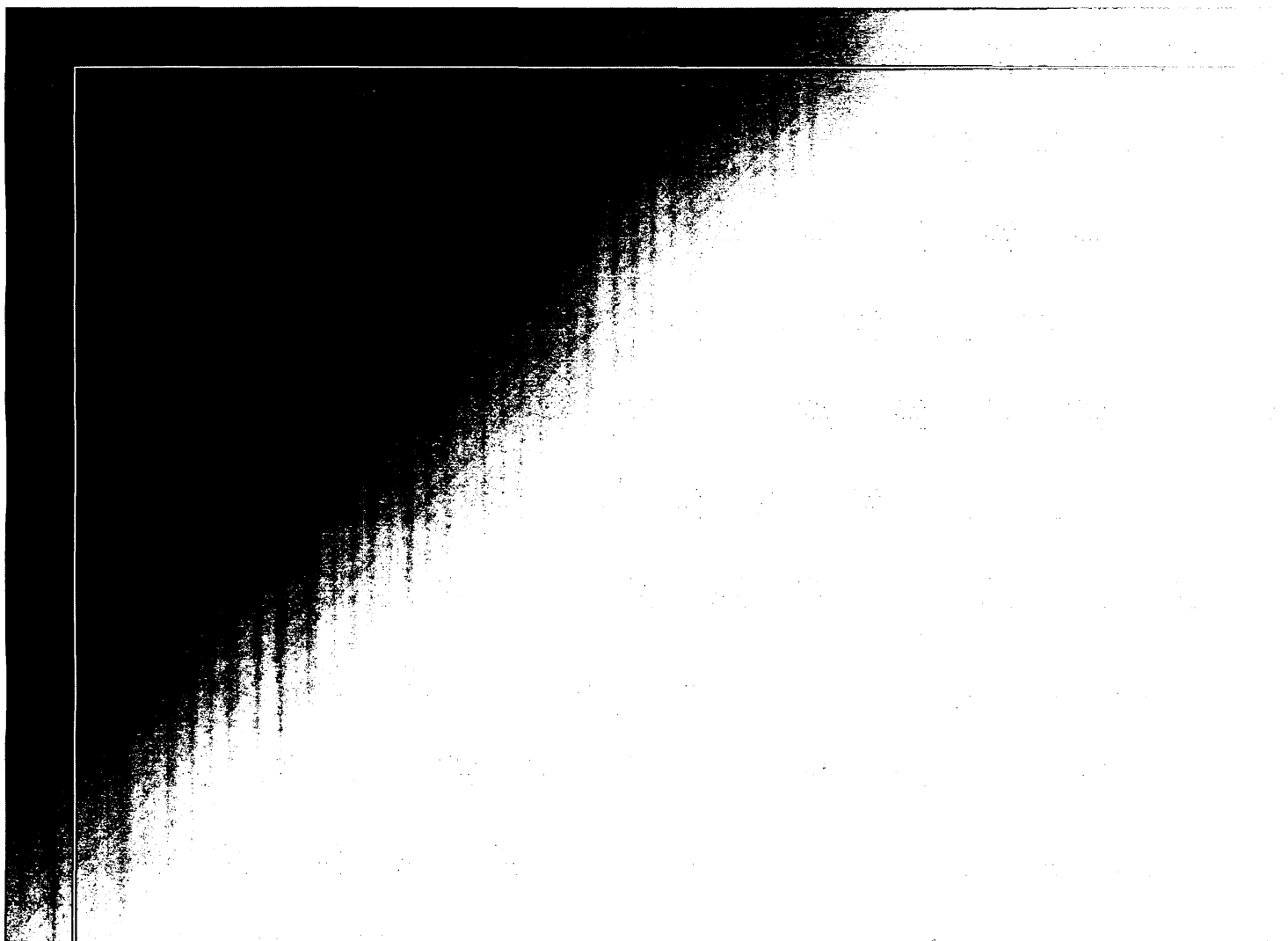
The strategic report is approved by the board and signed on its behalf by

Mark Sanderson

Company secretary

20 June 2018





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Our board of directors

John Dodds

Non-executive chairman

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

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

John is a non-executive director of Newbury Racecourse plc.

Alan Dunsmore

Chief executive officer

Appointed: 2010

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

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

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

Adam Semple

Group finance director

Appointed: 2018

Adam joined the Group in 2013 from Firth Rixson Group, prior to which he was with PwC in both Leeds and London, where he qualified as a chartered accountant in 2002.

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

Ian Cochrane

Chief operating officer

Appointed: 2013

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

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

Derek Randall

Executive director and managing director at JSW Severfield Structures

Appointed: 2008

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

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

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

Kevin Whiteman

Senior independent director

Appointed: 2014

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

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

Tony Osbaldiston

Non-executive director (chairman of the audit committee)

Appointed: 2014

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

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

Alun Griffiths

Non-executive director (chairman of the remuneration committee)

Appointed: 2014

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

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

Chris Holt

Non-executive director

Appointed: 2011

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

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

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

Our executive committee

1 Alan Dunsmore

Chief executive officer

For details see board of directors on page 72

2 Ian Cochrane

Chief operating officer

For details see board of directors on page 73

3 Derek Randall

(Not pictured)

Executive director and managing director at JSW Severfield Structures

For details see board of directors on page 73

4 Adam Semple

Group finance director

For details see board of directors on page 72

5 Gary Wintersgill

Managing director, Severfield (UK)

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

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

6 Jim Martindale

Managing director, Severfield (Design & Build)

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

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

7 Brian Keys

Managing director, Severfield (NI)

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

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

8 Mark Sanderson

Group legal director and
Company secretary

Mark joined the Group in
September 2013.

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

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

9 Martin Kelly

Group strategic business
development director

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

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

10 Sian Evans

Group HR director

Sian joined the Group in
January 2013.

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

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

11 Phillipa Recchia

Group SHE director

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

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

Our chairman's view on governance

Dear shareholder

I am pleased to introduce the Group's corporate governance report on behalf of our board of directors ('the board'). We remain committed to maintaining the high standards of corporate governance which we believe help to facilitate the success of the Group and provide protection for our shareholders. The Group is committed to business integrity, high ethical values and professionalism in all of the activities it undertakes. I can confirm that the stewardship and good governance of our Company remains a high priority for the board.

Our corporate governance report is set out on pages 78 to 84 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code') and outlines how the board ensures that high standards of corporate governance are maintained.

Leadership and succession

Between 1 April 2017 and 31 January 2018, during Ian Lawson's absence due to physical ill health, I assumed the role as executive chairman, with Alan Dunsmore acting as chief executive officer and Adam Semple acting as Group finance director. Following Ian Lawson's departure from the business on 1 February 2018, Alan Dunsmore and Adam Semple were appointed to those roles on a permanent basis and since 1 February 2018 I have resumed my role as non-executive chairman. Ian left with our thanks and best wishes and our ability to operate effectively in Ian's absence was testament to the effectiveness of the succession planning that we have undertaken in recent years.

Board evaluation

During the year, an internal board evaluation was undertaken by Kevin Whiteman, the senior independent director. This included an evaluation of my own performance as well as that of the other directors and the board's committees. Overall, the evaluation was positive, further details of which can be found in the corporate governance report on page 82.

John Dodds

Non-executive chairman

Accountability

In light of recent corporate failures, the FRC has focused on the accounting and reporting framework in our sector and issued further guidance on principal risk and viability statement reporting. We have considered this in our principal risk reporting which is set out on pages 58 to 61 within the risk management section, which also includes our annual confirmations on risk management and internal control (see page 60). The viability statement itself is set out on page 45 within the strategic report.

We continue to assess the impact of new International Financial Reporting Standards on our annual report. We have completed our assessment of IFRS 15, the new revenue recognition standard, further details of which can be found in the notes to the financial statements on page 132.

The board has confirmed that this annual report is fair, balanced and understandable. The audit committee, supported by management, has adopted a process to enable the board to take this view. You can find an explanation of the process we have used to make this determination in the audit committee report on page 87.

The board delegates certain of its responsibilities to the board committees to enable it to carry out its functions effectively. A diagram of the board governance structure is set out on page 78.

Remuneration

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

Our remuneration policy was approved at the AGM in September 2017, as was our revised Performance Share Plan ('PSP'). A summary of our remuneration policy, how we intend to operate that policy in 2019, and a review of the remuneration committee's activities, together with bonus and PSP performance in 2018, can be found in the remuneration report on pages 98 to 116.

Talent and diversity

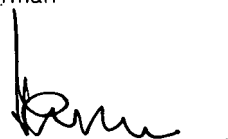
The board is mindful of diversity and we believe that a diverse company (in all regards, not just gender) provides a balanced and effective organisation. During the year, we published our gender pay gap report. We are confident that our gender pay gap does not stem from paying men and women differently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

AGM

Our AGM this year will be held again at Aldwark Manor Hotel, York, YO61 1UF on 4 September 2018 at 12:00 pm and I look forward to seeing you then.

John Dodds

Non-executive chairman
20 June 2018

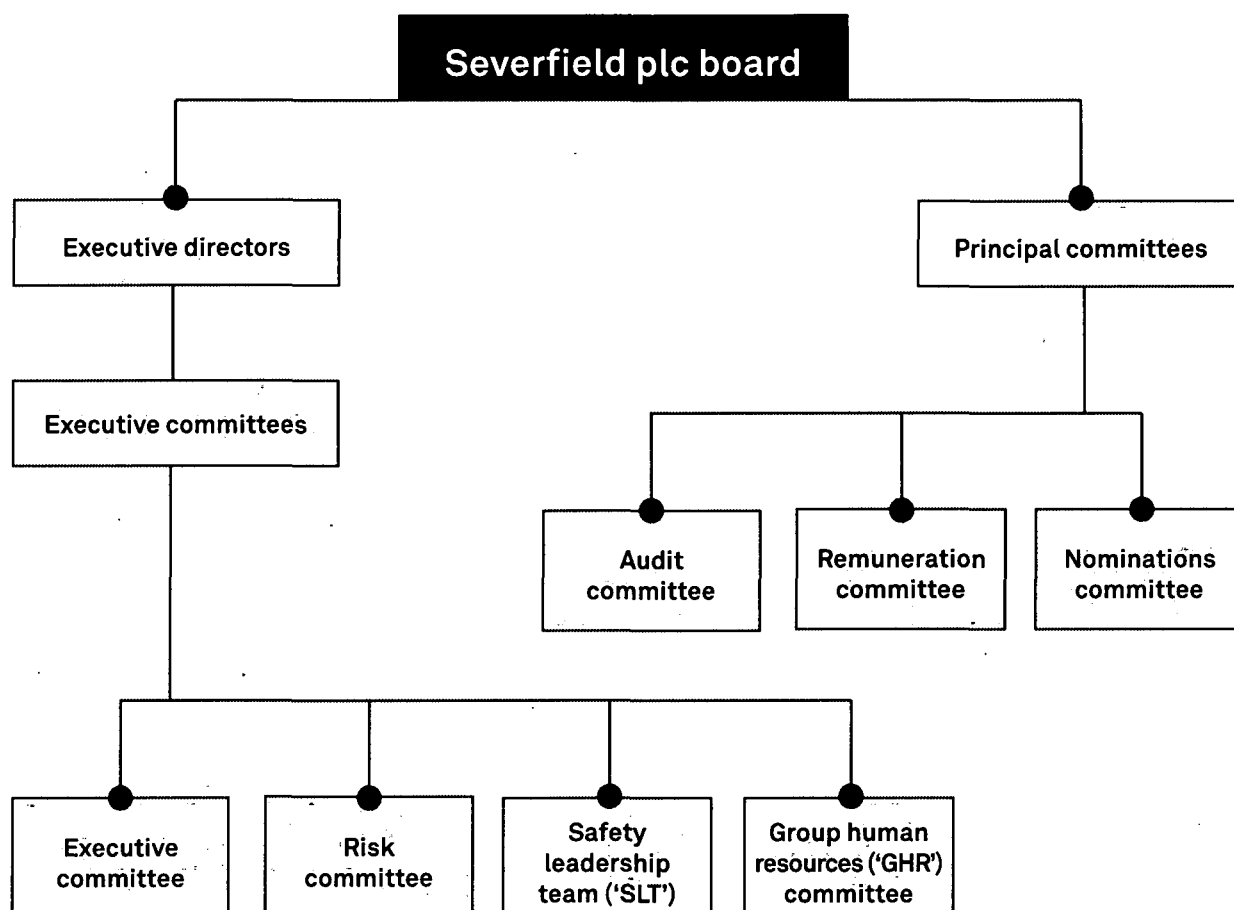


Compliance with the UK Corporate Governance Code

The board considers that it and the Company have, throughout the year, complied without exception with the provisions of the UK Corporate Governance Code (April 2016), which is the version of the Code which applies to the Company for its 2018 financial year. The Code is issued by the FRC and is available for review on the FRC's website (www.frc.org.uk).

Corporate governance report

Leadership



Structure of the board

The Company is controlled through the board of directors, which consists of the chairman, four other non-executive directors and four executive directors. Four of these directors have been directors of the Company for less than five years. The membership of the board is stated on pages 72 and 73.

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

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

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

Non-executive chairman

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

Alan Dunsmore	As the senior executive of the Company, Alan Dunsmore is responsible to the chairman and the board for directing and prioritising the profitable operation and development of the Group. The chief executive officer is responsible for the day-to-day management of the operational activities of the Group, assessing and implementing strategy and implementing the board's decisions. The chief executive officer chairs an executive committee consisting of the members indicated on pages 74 and 75. This committee assists the main board by focusing on strategic and operational performance matters relating to the business and meets formally on a monthly basis. He also, together with the Group finance director and chief operating officer, holds quarterly meetings with each of the three business unit boards to review all operational issues and meets with an executive risk committee comprising himself, the Group finance director, chief operating officer and the Group legal director on a weekly basis to discuss any key issues affecting the business. In addition, he chairs a safety leadership team ('SLT') and a Group human resources ('GHR') meeting once a month, both of which consist of certain other members of the executive management team and business unit managing directors.
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Senior independent director

Kevin Whiteman	Kevin Whiteman is the senior independent non-executive director whose role is to provide a sounding board for the chairman and to serve as an alternative source of advice to the chairman for the other non-executive directors. The senior independent director is available to shareholders if they request a meeting or have concerns which contact through the normal channels has failed to resolve, or where such contact is inappropriate. He also leads the performance review of the chairman and the board, taking into account the views of the executive directors.
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Between the start of the financial year and 31 January 2018, as a result of the temporary leave of absence of the former chief executive officer Ian Lawson on grounds of physical ill health, John Dodds acted as executive chairman on a temporary basis, and the chief executive officer and Group finance director performed those roles on an acting basis.

Corporate governance report

Independence

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

At no time during the year ended 31 March 2018 did any director hold a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking other than the executive directors in relation to their service agreements. The directors have put in place procedures to ensure the board collectively, and the directors individually, comply with the disclosure requirements on conflicts of interest set out in the Companies Act 2006. The interests of the directors in the share capital of the Company and its subsidiary undertakings and their interests under the performance share plan and other share schemes are set out in the remuneration report on page 112. Save as disclosed in the directors' remuneration report, none of the directors, or any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries.

Directors to stand for election

The Company's articles of association require the directors to offer themselves for re-election at least once every three years. Notwithstanding this, and in accordance with the recommendations of the Code, the Company's policy is that all the directors retire at each AGM and may offer themselves for re-election by shareholders. Accordingly, all of the existing directors whose biographies are set out on pages 72 and 73 will be standing for re-election at the 2018 AGM.

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

Effectiveness

Operation of the board

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

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

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

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2018 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	3	5	4
Executive directors				
Ian Lawson*	0/9	—	—	—
Ian Cochrane	11/11	—	—	—
Alan Dunsmore	11/11	—	—	—
Derek Randall	11/11	—	—	—
Adam Semple†	11/11	—	—	—
Non-executive directors				
John Dodds**	11/11	1/1	1/1	1/1
Kevin Whiteman	11/11	3/3	4/5	4/4
Tony Osbaldiston	11/11	3/3	5/5	4/4
Alun Griffiths	11/11	3/3	5/5	4/4
Chris Holt	11/11	3/3	5/5	4/4

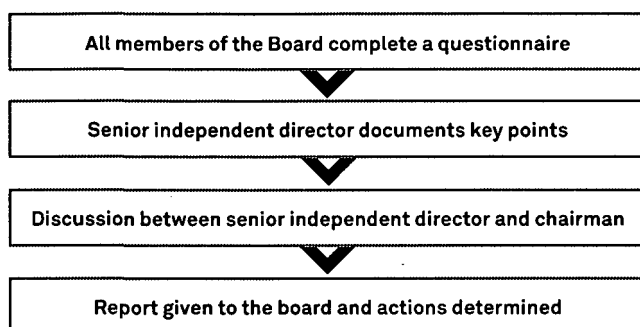
*Ian Lawson was unable to attend any board meeting due to his continued ill health and he resigned as a director on 31 January 2018.

† Adam Semple attended all board meetings during the period but was not appointed as a director of the Company until 1 February 2018.

** During his tenure as executive chairman (1 April 2017 to 31 January 2018), John Dodds attended nine board meetings (the remaining two meetings he attended as non-executive chairman). In addition, he attended all board committee meetings during the year but those which took place during his tenure as executive chairman were by invitation only.

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

Corporate governance report



Board evaluation process

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

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

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

Consideration was given to undertaking an externally facilitated review but it was decided that such an approach would not be beneficial in the current year. A further evaluation of the board will be undertaken during the year ending 31 March 2019.

Professional development

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

Training and updating in relation to the business of the Group and the legal and regulatory responsibilities of directors was provided throughout the year by a variety of means to board members including presentations by executives, visits to business operations and circulation of briefing materials. Individual directors are also expected to take responsibility

for identifying their training needs and to ensure they are adequately informed about the Group and their responsibilities as a director. Particular attention was paid to the new corporate criminal offence of failing to prevent the facilitation of tax evasion and to the new General Data Protection Regulation ('GDPR'), and ensuring all directors were aware of their implications and their duties.

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

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

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

Board committees

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

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

Details of the work of the audit, nominations and remuneration committees are set out on pages 86 to 116.

Board site visit

In May 2018, the board visited the Indian joint venture, JSSL. The board members visited the company's offices in Mumbai where they had the opportunity to meet key members of the India management team. Whilst in Mumbai, Derek Randall, JSSL managing director, presented an overview of the business and its strategic plans. The board also visited the main production facility in Bellary, where they enjoyed a factory tour and also received a wide range of presentations covering subjects such as operational improvements, safety, HR and finance. Whilst in India, the board also took the opportunity to visit a large construction site in Dolvi, where work is being undertaken for our joint venture partner, JSW Steel.

Board strategy review

In addition to regular scheduled board and board committee meetings, the board undertakes an annual strategy away day each year. This is structured to follow a scheduled board meeting. The agenda for the strategy away day is agreed in advance, including specific strategic issues which have been raised at previous board meetings or requested by the board.

Board meetings for the current year

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

April 2017

- Review of the HSE sentencing guidelines and business continuity and crisis management arrangements
- Strategic review undertaken and strategic plan updated
- Reviewed the statement of compliance in accordance with the Modern Slavery Act

June 2017

- Reviewed and approved annual report and accounts
- Approved final dividend
- Assessed going concern and longer term viability of the Group
- Board site tour at 22 Bishopsgate

September 2017 (two meetings)

- Board visit to the Ballinamallard factory and business update presentation by Severfield (NI)'s senior management team
- Approved the corporate criminal offence risk mitigation plan
- Reviewed annual statements of compliance from directors and approved conflicts of interest
- Adopted new PSP rules after AGM shareholder approval
- Approved appointment of new financial PR advisers (Camarco)

January 2018

- Presentation by the Group SHE director on current health and safety performance
- Board visit to Dalton factory and business update presentation by Severfield (UK)'s senior management team
- Presentation on implementation of strategy in Europe by European Business Development Director
- Reviewed investor feedback on interim results
- Agreed scope and content of board and chairman evaluation
- Approved board changes for appointment of new chief executive officer and Group finance director

May 2017

- Presentation by the Group SHE director on current health and safety performance and strategy
- Board visit to Sherburn factory and business update presentation by Severfield (Design & Build)'s senior management team
- Approved proposal to make a further India equity investment to repay joint venture term debt

July 2017

- Presentation by Group HR director on HR strategy
- Reviewed feedback on year-end results
- Reviewed IT director's paper on current and planned cybersecurity risk mitigation plans

November 2017 (two meetings)

- Board site tour at Tottenham Hotspur
- Reviewed and approved half year results
- Approved interim dividend

February 2018

- Approved the proposed GDPR compliance plan

March 2018

- Presentations on latest market developments
- Reviewed board and chairman evaluation results

Corporate governance report

Accountability

Financial and business reporting

The financial statements contain an explanation of the directors' responsibilities in preparing the annual report and the financial statements (pages 126 to 170) and a statement by the auditor concerning their responsibilities (pages 120 to 125). The directors also report that the business is a going concern (page 95) and detail how the Group generates and preserves value over the longer term (the business model) and the Group's strategy for delivering its objectives in the strategic report (pages 16 to 68). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 45).

Annual report

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

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

Remuneration

The directors' remuneration report is on pages 96 to 116. It sets out the activities of the committee, the levels and components of remuneration and refers to the development of the remuneration policy.

Relations with shareholders

The board recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. The Company encourages two-way communication with both its institutional and private investors and attempts to respond quickly to all queries received verbally or in writing.

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

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

Audit committee report

Tony Osbaldiston

Chairman of the audit committee

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

Members

Tony Osbaldiston (chairman)

Kevin Whiteman

Alun Griffiths

Chris Holt

John Dodds

The composition of the Audit Committee meets with the requirements of the UK Corporate Governance Code (April 2016) and is reviewed regularly. All committee members during the year were independent non-executive directors in accordance with the Code. The members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the committee’s duties.

Tony Osbaldiston and Chris Holt are chartered accountants.

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

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

Role and key responsibilities

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

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

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

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

Activities of the committee

The committee addressed the following key agenda items in relation to the 2018 financial year:

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

Fair, balanced and understandable

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

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

Risk management and internal control

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

Details of the Group risk management and internal control processes are set out in the risk management section of the strategic report on pages 58 to 61.

Whistleblowing

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

Audit committee report

Viability statement

The committee has undertaken a detailed assessment of the viability statement and recommended to the board that the directors could have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The viability statement can be found on page 45 of the strategic report.

Financial reporting and significant financial issues

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

In the 2017 annual report, the carrying value of goodwill and other non-current assets was classified as a significant accounting risk which covered the impairment risks associated with both goodwill and the investment in the Indian joint venture. Given the strong profitability of the underlying business to which goodwill relates, the goodwill component of this item is no longer classified as a risk in the 2018 annual report.

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

Contract valuation, revenue and profit recognition:

The committee reviewed the report of the Group finance director that set out the main contract judgements associated with the Group's significant contracts. The significant areas of judgement include the timing of revenue and profit recognition, the estimation of the recoverability of contract variations and claims, the estimation of future costs to complete and the estimation of claims received by the Group. The external auditor performed detailed audit procedures on revenue and profit recognition and reported their findings to the committee.

Review of carrying value of investment in the Indian joint venture:

The committee considered the carrying value of investments in the Indian joint venture and the assumptions underlying the impairment review. The judgements in relation to impairment largely relate to the calculation of the value in use of the assets being tested for impairment, primarily the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process.

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

In addition, the committee has considered a number of other judgements which have been made by management, none of which had a material impact on the Group's 2018 results. These include the valuation of pension scheme liabilities and the disclosure of certain contingent liabilities.

Internal audit

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

External auditor independence and effectiveness

The year ended 31 March 2018 marks the third year during which KPMG has acted as the Group's external auditor. The committee considers the reappointment of the external auditor, including the rotation of the senior statutory auditor, annually. This also includes an assessment of the external auditor's independence and an assessment of the performance in the previous year, taking into account detailed feedback from directors and senior management across the Group.

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

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

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

Reappointment of external auditor

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

As previously reported, KPMG were selected as the Group's auditor for the year ended 31 March 2016, following a competitive tender process, and were appointed at the AGM on 2 September 2015. The external auditor is required to rotate the senior statutory auditor every five years. The senior statutory auditor responsible for the Group audit for 2018 is Adrian Stone, whose appointment in this role commenced with the audit for the financial year ended 31 March 2016. Following Adrian's decision to retire from KPMG in late 2018, the new statutory auditor responsible for the Group audit for 2019 will be David Morritt, subject to the reappointment of KPMG at the AGM.

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

Non-audit services

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

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

This policy is compliant with the Code and with the FRC's revised Guidance on Audit Committees. It includes restrictions on the scope of permissible non-audit work and a cap on fees for permissible non-audit work (which may not exceed 70 per cent of the average audit fees paid in the last three consecutive years). The policy requires a competitive tender for all work with a fee over £30,000.

For work that is permitted under the policy, authority is delegated to the Group finance director to approve up to a limit of £50,000 for each assignment and there is a cumulative annual total of less than 50 per cent of that year's audit fee. Prior approval is required by the committee for any non-audit assignments over £50,000 or where the 50 per cent audit fee threshold is exceeded. No non-audit services provided by KPMG during the year ended 31 March 2018 required the approval of the committee.

Details of the auditor's fees, including non-audit fees (which comply with the Group's policy on the provision of non-audit services), are shown in note 4 to the consolidated financial statements. The total non-audit fees for 2018 represent 16 per cent of the total KPMG audit fee. Those non-audit services undertaken by the auditor were purchased from the auditor because of its existing knowledge of the Group's business which meant it could undertake them more effectively.

Tony Osbaldiston

Chairman of the audit committee
20 June 2018



Nominations committee report

John Dodds

Chairman of the nominations committee

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

Members

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

The committee met on four occasions during the year, primarily to consider the interim arrangements necessary to ensure continuity in Ian Lawson's continued absence and the further changes needed when Ian left the business in February 2018. For the majority of the year, whilst I was acting as executive chairman, Kevin Whiteman acted as chairman of the nominations committee, but I resumed my role as chairman on 1 February 2018.

Role

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

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

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

Board effectiveness

The committee had to consider interim arrangements to ensure business continuity following Ian Lawson's illness in March 2017 and, drawing on the succession planning work undertaken over the previous three years recommended to the board that Alan Dunsmore should be appointed as acting chief executive officer and Adam Semple as acting Group finance director. After Ian's departure from the business, the committee reviewed their performance during the year and recommended to the board that they be offered the positions on a permanent basis. As a result, one new board appointment was made in Adam Semple and the board has consequently been at full strength, and considered to be operating effectively all year. The board consists of nine directors, four of whom have been directors of the Company for less than five years.

Diversity

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

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

In the sectors in which the Group operates, female representation at a board level is unusual and as at 31 March 2018, the board had no female directors. Notwithstanding this, female representation on our executive committee is two (18 per cent). The board recognises that gender diversity below board level continues to remain an issue, particularly in management and technical roles within the construction industry.

Succession planning

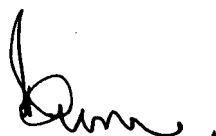
The committee ensures the continued effectiveness of the board through appropriate succession planning. The value of this work was borne out this year when the new chief executive officer and the new Group finance director were both selected from candidates who were part of our succession plan. We shall continue to undertake succession planning across the Group.

Evaluation

The committee (led by Kevin Whiteman) performed an internal evaluation using the process described on page 82. The results of the evaluation were positive, following the significant changes made to the board four years ago. The key points arising from the evaluation were documented and discussed with the chairman.

John Dodds

Chairman of the nominations committee
20 June 2018



Directors' report

Introduction

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2018.

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 16 to 68, as the board considers them to be of strategic importance. Specifically, these relate to the Company's business model and strategy, future business developments, research and development activities and risk (including financial risk) management.

The corporate governance report on pages 78 to 84 is incorporated in this report by reference.

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

Directors

The present membership of the board is set out on pages 72 and 73.

The other significant commitments of the chairman consist of acting as non-executive director of Newbury Racecourse plc.

The service agreements of the executive directors and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office. Brief details are also included in the directors' remuneration report on page 103.

Appointment and replacement of directors

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

Powers of the directors

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

Directors' indemnities

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

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

Significant shareholdings

As at 1 June 2018, the Group had been notified of the following voting rights to the Company's shares in accordance with the Disclosure Rules and Transparency Rules of the UK Listing Authority:

Name	Ordinary 2.5p share	%
1. JO Hambro Capital Management	44,514,541	14.77
2. M&G Investments	41,374,845	13.73
3. Threadneedle Investments	24,063,792	7.99
4. Legal & General Investment Management	17,004,251	5.64
5. Artemis Investment Management	16,756,297	5.56
6. Invesco (including Perpetual & Trimark)	16,529,583	5.49

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 2.5p each. No other securities have been issued by the Company. At 31 March 2018, there were 299,682,810 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 22 to the financial statements. During the period, shares in the Company were issued to satisfy awards under the Company's share incentive schemes. Further details regarding employee share-based payment schemes are set out in note 21. No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees.

Directors' report

Voting rights and restrictions on transfer of shares

All of the issued and outstanding ordinary shares of the Company have equal voting rights, with one vote per share. There are no special control rights attaching to them save that the control rights of any ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various employee share plans. In relation to the EBT and any unallocated Company shares held in it, the power to vote or not vote is at the absolute discretion of the trustee. The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or on voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the articles and in the explanatory notes that accompany the Notice of the 2018 AGM. These documents are available on the Company's website at www.severfield.com.

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

At the Company's annual general meeting ('AGM') held on 6 September 2017, shareholders authorised the Company to make market purchases of ordinary shares representing up to 10 per cent of its issued share capital at that time and to allot shares within certain limits approved by shareholders. These authorities will expire at the 2018 AGM (see below) and a renewal will be sought. The Company did not purchase any of its ordinary shares during the year.

The Directors were granted authority at the previous annual general meeting on 6 September 2017, to allot shares in the Company: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the 2018 AGM (or, if earlier, until the close of business on 30 September 2018). During the period, the directors did not use their power to issue shares under the authorities but did issue shares to satisfy options and awards under the Company's share incentive schemes.

The directors were also granted authority at the previous annual general meeting on 6 September 2017, under two separate resolutions, to disapply pre-emption rights. These resolutions, which followed the Pre-emption Group's Statement of Principles (March 2015) on disapplying pre-emption rights applicable at that time, sought the authority to disapply pre-emption rights over 10 per cent of the Company's issued ordinary share capital. These authorities apply until the end of the 2018 AGM (or, if earlier, until the close of business on 30 September 2018). During the period, the directors did not use these powers.

Dividends

The directors declared an interim dividend for the six months ended 30 September 2017 of 0.9p per ordinary share (2017: 0.7p). The directors have recommended a final dividend of 1.7p per ordinary share and a special dividend of 1.7p per ordinary share to be paid on 14 September 2018 to shareholders on the register at the close of business on 17 August 2018.

Change of control

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

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

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

Amendment of articles of association

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

Political contributions

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

Going concern

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

The key factors considered by the directors in making the statement are set out in the financial review on page 45.

Anti-corruption and bribery matters

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

Additional disclosures

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

- Employees, employee involvement and engagement – pages 52 to 56
- Respect for human rights – page 56
- Social matters – pages 56 and 57
- Equal opportunities (including for the disabled) – page 53
- Environmental matters – pages 46 to 50
- Greenhouse gas emissions – pages 50 and 51
- Long-term incentive plans – page 101 of the directors' remuneration report
- Statement of directors' interests – page 112 of the directors' remuneration report
- Financial instruments – note 20 to the Group financial statements
- Credit, market, foreign currency and liquidity risks – note 20 to the Group financial statements
- Related party disclosures – note 29 to the Group financial statements

Disclosure of information to the external auditor

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

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

External auditor

KPMG LLP acted as the auditor for the Company for the year ended 31 March 2018. KPMG has expressed its willingness to continue in office as external auditor and a resolution to appoint it will be proposed at the forthcoming AGM.

Annual general meeting

The notice concerning the AGM to be held at Aldwark Manor Hotel, York at noon on Tuesday 4 September 2018, together with explanatory notes on the resolutions to be proposed and full details of the deadlines for exercising voting rights, is contained in a circular to be sent to shareholders with this report.

The directors' report from pages 92 to 95 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary
20 June 2018



Mark Sanderson
Company secretary

Directors' remuneration report

Alun Griffiths

Chairman of the remuneration committee

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

Dear shareholder

I am pleased to present our directors' remuneration report (the 'report') for the year ended 31 March 2018 incorporating our annual report on remuneration which is being tabled for shareholder approval at the 2018 AGM and which incorporates the remuneration policy approved at the AGM in 2017.

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

The management team performed well during the year despite the prolonged absence through ill health of Ian Lawson. The team was restructured on 1 February 2018, following Ian's departure from the business, which was agreed in accordance with the terms of his service agreement. The remuneration committee, within the terms of the approved remuneration policy and with due regard to the policy on payment for departure from office, considered Ian's long and successful tenure as chief executive officer and agreed the treatment of his deferred bonus shares under the deferred share bonus plan ('DSBP') and awards under the Severfield performance share plan ('PSP') on 31 January 2018. Ian was not paid any bonus for the year ended 31 March 2018. He was classified as a 'good leaver' for the share schemes in which he participated. Awards under the DSBP were allowed to vest in full on the date of retirement. In respect of Ian's outstanding awards under the PSP, these continue to be capable of vesting on their normal vesting date. The extent of the performance vesting of the awards remains dependent on the applicable performance conditions being met. In addition, a time pro-rata reduction shall be applied. The details of the departure terms are shown on page 111.

Ian Lawson's successor as chief executive officer is Alan Dunsmore, an internal appointment. Alan was promoted from Group finance director to chief executive officer on a permanent basis, having undertaken the role on an acting basis since April 2017 and his remuneration adjusted accordingly. The remuneration package is substantively the same as that provided to the retiring chief executive officer, but with a reduced salary. Adam Semple was promoted from Group financial controller to Group finance director on the same date, having also undertaken the role on an acting basis, and his remuneration was also adjusted accordingly. Further details are set out below.

Outline of the remuneration report

The report is split into the following two sections:

- Part 1, the remuneration policy report, which sets out the remuneration policy for the executive and non-executive directors; and
- Part 2, the annual report on remuneration, which discloses how the remuneration policy was implemented for the year ended 31 March 2018 and how it will be implemented for the year ending 31 March 2019.

The annual report on remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 4 September 2018. This provides details of the remuneration earned by directors for performance in the year ended 31 March 2018. The directors' remuneration policy report was strongly supported by shareholders in a binding vote at the 2017 AGM, with 99.66 per cent of votes cast in favour and is not being submitted to a shareholder vote at the 2018 AGM. The policy is intended to remain in place for three years from the date of approval and will next be subject to a binding vote at the 2020 AGM (or sooner if changes are made to the policy).

Performance and reward 2018

Base salaries

The remuneration packages of Alan Dunsmore and Adam Semple were adjusted following their promotion on 1 February 2018, respectively, to positions of chief executive officer and Group finance director. The base salary for Alan Dunsmore was increased to £350,000 from £325,000 (his base whilst undertaking the role on an acting basis). The base salary for Adam Semple was increased to £220,000. This provides scope for further growth as he develops in his role. Other terms and conditions were adjusted in line with policy. In both cases, the revised base salaries are below those of the previous incumbents.

During the year, other directors received a 2.5 per cent salary increase which was broadly in line with that received by the UK workforce.

Annual bonus

I am pleased to report that the base financial targets set by the board were exceeded and the base safety targets met, resulting in a bonus pay-out of 63 per cent of the maximum for all of the executive directors except Derek Randall (who, whilst he remains in India, has the profit performance-based component of his bonus split 50/50 between Group PBT and PBT for India) who achieved a bonus pay-out of 69 per cent.

PSP awards

The normal maximum award level for the chief operating officer is up to 75 per cent of salary. An award of 100 per cent of salary was made to Ian Cochrane in 2018, above this level but within the approved policy maximum annual award limit of 150 per cent of salary. This is to reflect the increased responsibilities and contribution to the Group during Ian Lawson's absence and during the management team's restructuring. The targets for the 2018 award are set out below.

PSP vesting

The levels of profit achieved last year resulted in targets for the 2015 PSP award (EPS targets which equated to PBT of between £16m and £24m) being exceeded, resulting in the expected vesting of these awards at close to their maximum level (95.4 per cent).

Implementation of policy for 2019

Base salaries

Salaries for the directors will be reviewed later this year after the conclusion of the pay review across the Group and will be effective from 1 July 2018. There will be no change to the fees paid to non-executive directors.

Annual bonus

The financial and safety performance targets for the 2019 bonus reflect the continued strong forward momentum of the Group. The committee considered the balance of financial and non-financial measures, as well as the appropriateness of each measure, and considers that these remain appropriate for the year ahead.

PSP

The share plan targets are intended to incentivise management to maintain this momentum and will require the Group to deliver earnings per share ('EPS') in the range of 7.88p to 9.75p in 2021. This equates to a PBT range of £29.5m to £36.5m. This represents an increase in the lower vesting threshold of £4.5m (18 per cent) and in the threshold at which maximum vesting takes place of £7.0m (24 per cent). This represents a vesting range which the committee feels is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

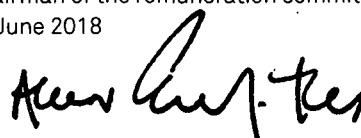
Conclusion

The committee continues to seek to strengthen shareholder alignment and ensure that pay remains firmly linked to performance whilst ensuring that the bonus and performance share plans provide a strong incentive for management to deliver superior performance over the short and longer term. We consider our remuneration policy achieves these objectives.

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

Alun Griffiths

Chairman of the remuneration committee
20 June 2018



Directors' remuneration report

This report complies with the provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the UK Corporate Governance Code 2016 and the UKLA Listing Rules and the Disclosure and Transparency Rules. The remuneration committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the Investment Association and the NAPF.

The report is in two parts:

- a summary of the directors' remuneration policy (pages 98 to 105). This section contains details of the remuneration policy approved at the 2017 AGM and is for information only.
- the directors' annual remuneration report (pages 106 to 116). This section sets out the details of how our remuneration policy was implemented for the year ended 31 March 2018 and how we intend to apply it for the year ending 31 March 2019, and it is subject to an advisory vote at this year's AGM.

Part 1 - Summary of directors' remuneration policy

The remuneration policy was approved at last year's AGM. *Provided for information only* are the details of the policy that were referenced in the committee's activities over the past reporting year which includes the remuneration policy table, the recruitment remuneration arrangements, executive director service contracts and terms and conditions for non-executive directors. Minor updates have been made to the table to reflect the adoption of the new PSP scheme approved at last year's AGM.

The full policy report, as approved by shareholders, can be found on page 83 in the 2017 annual report. It is intended this policy will remain in place until the 2020 AGM.



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

Remuneration policy table

Executive directors

Base salaries

Purpose and link to strategy

To provide the core reward for the role.

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

Operation

Base salaries are normally reviewed annually by the committee.

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

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

Benefits

Purpose and link to strategy

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

Operation

The Group currently provides the following employee benefits:

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

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

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

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

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

Directors' remuneration report

Pension

Purpose and link to strategy

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

Operation

Group contribution to defined contribution scheme (own or the Group's), a cash supplement or a combination of both up to the maximum value.

Director has no obligation to match Group contributions.

Maximum opportunity

Twenty per cent of base salary contribution/cash supplement for chief executive officer and 18 per cent of salary for others up to a maximum of £50,000 (with the exception that for executive directors commencing service before 1 November 2013 where the Group pays a fixed contribution/cash supplement of £50,000 per annum).

For international assignments, the Group may be required to make additional payments to comply with local statutory requirements.

Performance conditions

No recovery provisions apply to pension benefits.

Annual bonus

Purpose and link to strategy

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

Operation

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

Dividends may accrue on deferred bonus shares.

Maximum opportunity

Maximum 100 per cent of base salary per annum.

Performance conditions

The committee will review the appropriateness of performance measures on an annual basis and consider whether there is a need to rebalance or amend the performance measures and weightings to reflect the business objectives at the time. However, the majority of the annual bonus will be subject to financial targets.

Currently, the business uses a combination of underlying profit before tax ('PBT') targets and accident frequency rate ('AFR') targets.

A minority of bonus will be payable for threshold levels of performance.

The actual measures and weightings are set out in the annual report on remuneration on page 109.

Performance Share Plan ('PSP') (approved by shareholders in 2017)**Purpose and link to strategy**

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

Operation

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

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

Dividends may accrue on vested awards.

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

All-employee share plan**Purpose and link to strategy**

To foster wider employee share ownership.

Operation

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

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

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

Directors' remuneration report

Notes to the policy table

Choice of performance conditions and metrics

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

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

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

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

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

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

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

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

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

Illustration of application of the policy

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

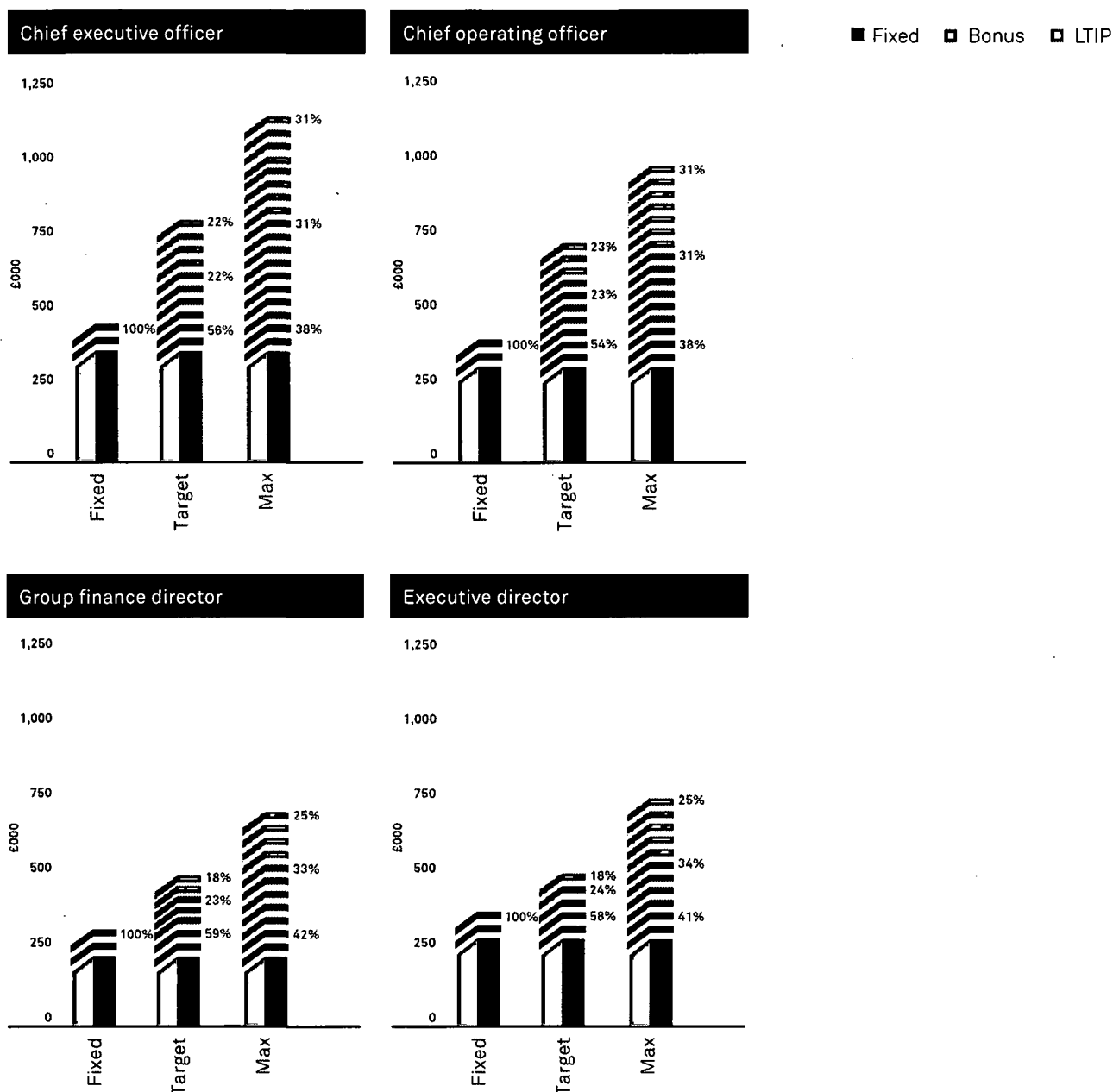
The following assumptions have been made:

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

Fixed pay comprises:

- Salaries — salary effective as at 1 July 2018;
- Benefits — amounts expected to be received by each executive director in the 2019 financial year;
- Pension — amount that will be received by each executive director in the 2019 financial year based on the policy set out in the table above.

The scenarios do not include any share price growth.



Executive directors' service agreements

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

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

Directors' remuneration report

Provision on payment for loss of office

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

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

Under the rules of the DSBP, the basis on which awards will generally be forfeited will include dismissal for misconduct, fraud and performance issues and where an executive leaves for alternative employment at a competitor.

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

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

Our recruitment remuneration policy

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

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

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

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

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

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

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

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

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

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

How are the non-executive directors paid?

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

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

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

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

Shareholding guideline

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

Directors' remuneration report

Part 2 – annual remuneration report

In this section, we report on the implementation of our policies in the year ended 31 March 2018 as well as how the policy will be implemented for 2019. The regulations require the auditor to report to the Group's shareholders on the auditable part of the directors' remuneration report and to state whether, in its opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The relevant sections subject to audit have been highlighted in the annual report on remuneration.

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

Implementation of policy for 2018

Remuneration committee

Membership, meetings and attendance

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

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

	Number of meetings attended:
Alun Griffiths (chairman)	5/5
John Dodds	1/1
Chris Holt	5/5
Kevin Whiteman	4/5
Tony Osbaldiston	5/5

The Group considers all members of the committee to be independent. Executive directors may attend remuneration committee meetings at the invitation of the committee chairman, but do not take part in any discussion about their own remuneration. For the period from 1 April 2017 until 31 January 2018, during which period, he was executive chairman, John Dodds attended all meetings by invitation only.

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

Advisers to the committee

The committee retained New Bridge Street (an Aon plc company) as an independent adviser to the remuneration committee throughout the year. New Bridge Street is a member of the Remuneration Consultants Group and is a signatory to its code of conduct. Neither New Bridge Street nor any other part of Aon plc provided other services to the Group during the year. The fees paid to New Bridge Street for work carried out during the year ended 31 March 2018 totalled £33,000 (2017: £34,000).

Directors' earnings for the 2018 financial year (audited)**Remuneration received by the directors**

£000	Year ended 31 March 2018						Total
	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	
Executives							
Ian Lawson ¹ (until 31 January 2018)	272	—	—	16	64	385	737
Alan Dunsmore ²	330	206	—	16	53	197	802
Ian Cochrane	302	190	—	16	50	240	798
Derek Randall	249	173	—	—	50	197	669
Adam Semple ³	167	66	—	11	16	21	281
John Dodds ⁴	146	—	21	—	—	—	167
Non-executives							
Tony Osbaldiston	—	—	45	—	—	—	45
Kevin Whiteman	—	—	45	—	—	—	45
Alun Griffiths	—	—	45	—	—	—	45
Chris Holt	—	—	40	—	—	—	40
	1,466	635	196	59	233	1,040	3,629

Taxable benefits include the provision of company cars, fuel for company cars, car and accommodation allowances and private medical insurance. LTIPs reflect those PSP awards expected to vest based on performance to 31 March 2018.

* Calculated at 95.4 per cent of maximum award × the average share price over the period 1 January 2018 to 31 March 2018 of 78.01p.

¹ Ian Lawson was an executive director for the period 1 April 2017 to 31 January 2018 and received compensation for loss of office of £408,000 on his departure on 31 January 2018. These payments represent amounts to which the Group was contractually obliged. He was not paid any bonus for the year ended 31 March 2018.

² Alan Dunsmore's remuneration comprises his remuneration as acting chief executive officer and as chief executive officer. He was paid a supplement of £63,000 to his salary as Group finance director to reflect the additional responsibilities of the acting chief executive officer role for the period 1 April 2017 to 31 January 2018.

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

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

	Year ended 31 March 2017						
£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
Executives							
Ian Lawson	373	359	—	28	75	393	1,228
Ian Cochrane	293	282	—	31	50	231	887
Alan Dunsmore	248	239	—	16	50	190	743
Derek Randall	243	195	—	—	50	190	678
Non-executives							
John Dodds	—	—	100	—	—	—	100
Tony Osbaldiston	—	—	45	—	—	—	45
Kevin Whiteman	—	—	45	—	—	—	45
Alun Griffiths	—	—	45	—	—	—	45
Chris Holt	—	—	40	—	—	—	40
	1,157	1,075	275	75	225	1,004	3,811

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

* LTIPs reflect those PSP awards vesting based on performance to 31 March 2017 and are calculated as actual value of benefit at the actual vesting date based on the vesting share price of 81.25p.

Directors' remuneration report

Remuneration received by the directors

The remuneration packages of Alan Dunsmore and Adam Semple were adjusted following their promotion on 1 February 2018, to positions of chief executive officer and Group finance director respectively. The base salary for Alan Dunsmore was increased to £350,000 from £325,000 (his base whilst undertaking the role on an acting basis). The base salary for Adam Semple was increased to £220,000. This provides scope for further growth as he develops in his role. Other terms and conditions were adjusted in line with policy. In both cases, the revised base salaries are below those of the previous incumbents.

During the year, other directors received a 2.5 per cent salary increase which was broadly in line with that received by the UK workforce.

Past directors/loss of office payments (audited)

During the year, a payment for loss of office was made to Ian Lawson, chief executive officer until 31 January 2018. In accordance with our policy on compensation for loss of office, Ian was paid 12 months' salary but was not paid any bonus for performance in 2018. Given the circumstances of his decision to leave the business, coming as it did at the end of absence due to physical ill health, the committee decided to treat him as a good leaver so that he retained his unvested PSP awards. These are therefore expected to vest at their normal vesting date with a pro-rata reduction being made to each for the unexpired element of the performance period as at 31 January 2018. In addition, in relation to his forfeitable DSBP share awards made in the last three years, the committee decided to treat him as a good leaver and allow his awards to vest on 31 January 2018. Finally, reflecting his personal circumstances, the committee decided to allow Ian to retain his private health benefit until 31 December 2018. There have been no other payments made to past directors during the year.

How pay linked to performance in 2018

Bonus

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

Under the rules of the Group's deferred share bonus plan, the participants will receive nil cost options exercisable after three years over a seven-year period which are forfeitable only in certain scenarios in accordance with the remuneration policy as disclosed on page 100.

Alan Dunsmore	£206,000
Ian Cochrane	£190,000
Adam Semple	£66,000
Derek Randall	£173,000

As reported last year, the bonus plan applicable to the executive directors for 2018 had two separate performance conditions:

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

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

The targets for 2018 and the pay-out against these targets are set out below:

For all directors (excluding Derek Randall)†

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	80%	£22.0m	£23.2m	£27.8m	£23.5m	53%	43%
Group AFR	20%	0.26	0.26	0.26	0.22	100%	20%
							63%

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

† During the financial year, Adam Semple achieved 67 per cent bonus pay-out as a percentage of salary reflecting the additional Group cash flow measure included in his agreed bonus target as acting Group finance director.

Derek Randall (JSSL managing director):

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus paid	Pay-out as % of salary
Group PBT*	40%	£22.0m	£23.2m	£27.8m	£23.5m	53%	21%
JSSL (India) PBT*	40%	Break-even	4.2 Cr	20.0 Cr	10.5 Cr	70%	28%
JSSL (India) AFR	20%	0.12	0.12	0.12	–	100%	20%
							69%

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

The 2015 PSP awards are due to vest in June 2018, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2018. The minimum EPS figure required for vesting of 25 per cent of the award was c.4.30p which equates to a PBT of £16.0m. The EPS figure required for vesting at maximum of 100 per cent of the award was c.6.45p which equates to a PBT of £24.0m. The actual PBT achieved was £23.5m which equates to EPS of 6.38p and therefore it is estimated that 95.4 per cent of these awards will vest subject to continued service.

Directors' remuneration report

A summary is set out below:

PSP awards granted to directors in 2018 (audited)

Share awards were made in the year under the PSP scheme for the three-year period expiring on 31 March 2020. Details of the awards made to the executive directors are summarised below.

	Type	Number of shares	% of salary	Face value (£) ¹	Performance condition ²	Performance period	% vesting at threshold
Ian Lawson ³	Nil-cost option	458,132	100%	377,959	EPS	3 financial years ending 31 March 2020	25%
Alan Dunsmore	Nil-cost option	304,549	100%	251,253			
Ian Cochrane	Nil-cost option	269,888	75%	222,658			
Derek Randall	Nil-cost option	221,948	75%	183,107			
Adam Semple	Nil-cost option	31,655	25%	26,115			

¹ Face value calculated based on the pre-grant date share price of 82.50p on 14 June 2017.

² Performance conditions are based on EPS targets of 6.76p (minimum performance – 25% vests) to 7.98p (maximum performance – 100% vests) with linear interpolation in between. This represents a PBT range of £25m–£29.5m.

³ Ian Lawson will be entitled to receive a pro-rated award reflecting the period up to his departure on 31 January 2018.

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

Outstanding share awards at the year-end (audited)

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

Director	Year of award	Vesting date (June)	Performance condition	Awards held at 1 April 2017	Awards granted in year	Awards lapsed in year ⁴	Awards vested in year	Awards held at 31 March 2018
Ian Lawson	2014	2017	EPS	632,054	—	(148,791)	(483,263)	—
	2015	2018	EPS	513,262	—	(27,655)	—	485,607
	2016	2019	EPS	741,186	—	(286,998)	—	454,188
	2017	2020	EPS	—	458,132	(330,106)	—	128,026
Total				1,886,502	458,132	(793,550)	(483,263)	1,067,821
Ian Cochrane	2014	2017	EPS	372,460	—	(87,681)	(284,779)	—
	2015	2018	EPS	302,366	—	—	—	302,366
	2016	2019	EPS	436,637	—	—	—	436,637
	2017	2020	EPS	—	269,888	—	—	269,888
Total				1,111,463	269,888	(87,681)	(284,779)	1,008,891
Alan Dunsmore	2014	2017	EPS	306,298	—	(72,105)	(234,193)	—
	2015	2018	EPS	248,656	—	—	—	248,656
	2016	2019	EPS	492,714	—	—	—	492,714
	2017	2020	EPS	—	304,549	—	—	304,549
Total				1,047,668	304,549	(72,105)	(234,193)	1,045,919
Derek Randall	2014	2017	EPS	306,298	—	(72,105)	(234,193)	—
	2015	2018	EPS	248,656	—	—	—	248,656
	2016	2019	EPS	359,071	—	—	—	359,071
	2017	2020	EPS	—	221,948	—	—	221,948
Total				914,025	221,948	(72,105)	(234,193)	829,675
Adam Semple	2014	2017	EPS	—	—	—	—	—
	2015	2018	EPS	26,388	—	—	—	26,388
	2016	2019	EPS	48,241	—	—	—	48,241
	2017	2020	EPS	—	31,655	—	—	31,655
Total				74,629	31,655	—	—	106,284
Total				5,034,287	1,286,172	(1,025,441)	(1,236,428)	4,058,590

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

	Threshold (25% vests)	Maximum (100% vests)
2015 award ¹	4.30p	6.45p
2016 award ²	5.06p	6.53p
2017 award ³	6.76p	7.98p

¹ Represents a PBT range of £16.0m – £24.0m.

² Represents a PBT range of £18.6m – £24.0m.

³ Represents a PBT range of £25.0m – £29.5m.

⁴ The figures for awards lapsed in the year against Ian Lawson's PSP awards for 2015, 2016 and 2017 reflect that he was a good leaver when he left the Company in January 2018 and is entitled to retain his existing PSP awards calculated on a time pro-rata reduction. The amounts lapsed are those elements of those awards which, after applying that calculation, have effectively lapsed now in any event.

Directors' remuneration report

Statement of directors' shareholding

As at 31 March 2018¹, all executive directors and their connected persons have a shareholding as follows:

	Actual share ownership as a percentage of salary
Alan Dunsmore	62%
Ian Cochrane ²	745%
Adam Semple ³	-
Derek Randall	105%

¹ Actual share ownership was calculated with reference to the closing mid-market share price at 31 March 2018. The shareholding requirement increased to 200% for the chief executive officer and the Group finance director under the new remuneration policy, approved at the 2017 AGM, 150% for all other executive directors. Executive directors are required to retain shares acquired under equity incentive schemes until such time as they have met the share ownership requirement. Ian Lawson left the Group on 31 January 2018 and has not been included in this table. Details of his interests as at 31 January 2018 are included in the table below.

² As at 31 March 2018, only Ian Cochrane satisfied the Company's shareholding guideline.

³ In his previous role, Adam Semple was not required to meet a shareholding requirement.

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2018, other than Ian Lawson who left the Company on 31 January 2018 and whose holdings are stated as at that date.

	Owned shares ¹	Share incentive plan (SIP) ²	Sharesave scheme	DSBP ³	PSP ⁴	Total ⁵
Executives						
Alan Dunsmore	296,173	16,416	33,003	216,467	1,045,919	1,607,978
Ian Cochrane	3,087,920	16,416	33,003	258,375	1,008,891	4,404,605
Adam Semple	—	—	6,200	—	106,284	112,484
Derek Randall	358,411	4,667	—	233,307	829,676	1,426,061
Ian Lawson	553,883	8,726	33,003	328,930	1,067,821	1,992,363
Non-executives						
John Dodds	419,833	—	—	—	—	419,833
Tony Osbaldiston	—	—	—	—	—	—
Kevin Whiteman	—	—	—	—	—	—
Alun Griffiths	30,000	—	—	—	—	30,000
Chris Holt	53,097	—	—	—	—	53,097

¹ Includes shares owned by connected persons.

² SIP shares are unvested and held in trust.

³ The principal terms of the deferred share bonus plan are described on page 100.

⁴ PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2015 awards which had not actually vested as at 31 March 2018.

⁵ There have been no changes in the directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this annual report, except shares held pursuant to the SIP. There have been no changes in the directors' beneficial interests in trusts holding ordinary shares of the Company. Some of the executive directors continued their membership in the SIP after the end of the period and were therefore awarded further shares pursuant to the SIP rules. Between the end of the period and 21 May 2018, being the last practicable date prior to the publication of this annual report, the executive directors acquired further shares under the SIP as set out in the table below.

	New SIP shares since 31 March 2018	Total SIP shares at 21 May 2018
Executives		
Ian Cochrane	323	16,739
Alan Dunsmore	323	16,739

Position against dilution limits

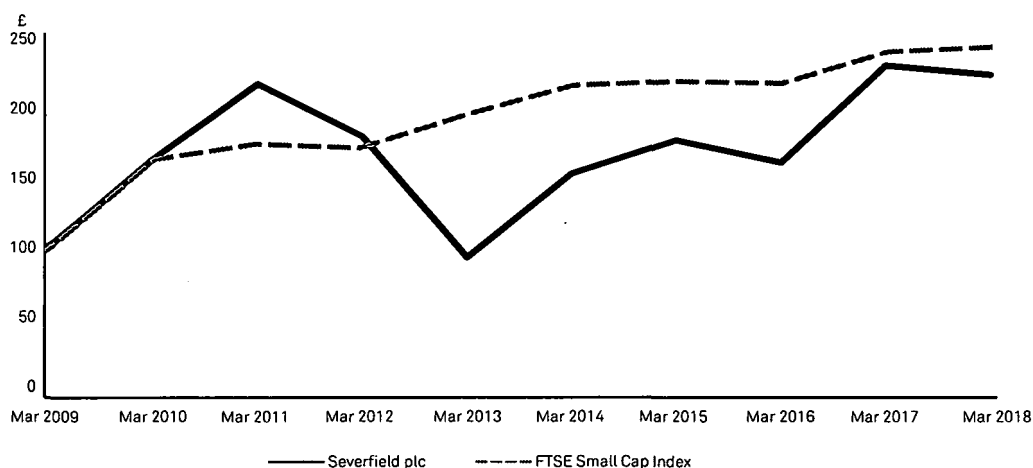
Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan (SIP), sharesave scheme and the PSP) must not exceed 10 per cent of the issued share capital in any rolling 10-year period. The Group's position against its dilution limit as at 31 March 2018 was well under the maximum 10 per cent limit at 5.6 per cent.

Performance graph

The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. It is based on the change in the value of a £100 investment made on 31 March 2009 over the nine-year period ended 31 March 2018.

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

Total shareholder return



Source: Factset

Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same nine-year period. Total remuneration includes bonuses and the value of PSP awards which vested (or in the case of 2018 are expected to vest) based on performance in those years (at the share price at which they vested or, in the case of the 2018 figures, at the average share price for the quarter immediately prior to the year-end).

	2009	2010	2011	2013	2013	2014	2014	2015	2016	2017	2018	2018
	Haughey	Haughey	Haughey	Haughey ¹	Dodds ^{2,3}	Dodds ²	Lawson ⁴	Lawson	Lawson	Lawson	Lawson ⁵	Dunsmore ⁶
Total remuneration (£000)	1,265	640	701	450	62	289	233	681	946	1,228	737	802
Annual bonus (%)	94.8%	50.1%	60.5%	—	N/A	N/A	34.0%	65.0%	63.0%	95.0%	—	62.6%
LTIP vesting (%)	100.0%	100.0%	—	—	N/A	N/A	—	—	64.0%	74.0%	95.4%	95.4%

¹ Tom Haughey received compensation of £423,000 for loss of office in accordance with his contract.

² John Dodds was appointed executive chairman in an interim capacity following Tom Haughey's resignation as chief executive officer on 23 January 2013 and prior to the appointment of Ian Lawson as chief executive officer on 1 November 2013. During this time he was awarded a discretionary bonus (no maximum was set) but not entitled to any PSP award. These figures do not include his fees as non-executive chairman.

³ Financial year 2013 represented the 15-month period to 31 March 2013.

⁴ Appointed on 1 November 2014.

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

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

Directors' remuneration report

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

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

	2018 £000	2017 £000	% change
Chief executive officer			
Salary	330	373	-11.5%
Benefits	16	28	-42.9%
Bonus	206	359	-42.6%
Average employees			
Salary	47	46	2.2%
Benefits	3	3	0.0%
Bonus	3	5	-40.0%

Relative importance of spend on pay

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

	2018 £000	2017 £000	% change
Staff costs	70,237	67,675	3.8%
Revenue	274,203	262,224	4.6%
Underlying operating profit (before JVs and associates)	22,866	19,614	16.6%
Dividends	7,490	5,078	47.5%

Shareholder voting

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

	Total number of votes	% of votes cast
For	232,317,280	99.96%
Against	91,930	0.04%
Total votes cast (for and against)	232,409,210	100%
Withheld votes	137,668	N/A
Total votes (including withheld votes)	232,546,878	N/A

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

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

Implementation of policy for 2019

The executive directors' current salaries

The salaries of the executive directors will be reviewed in October 2018 and backdated to July 2018. Increases will be set in the context of overall salary increases for the wider workforce.

The executive directors' salaries at the start of the 2019 financial year are as follows:

	£
Alan Dunsmore	350,000
Ian Cochrane	304,309
Adam Semple	220,000
Derek Randall	250,247

Benefits and pension

All executive directors will be entitled to a car allowance of £15,000 (chief executive officer: £18,000), a fuel allowance, life insurance cover and medical insurance. Alan Dunsmore will receive a salary payment in lieu of pension contribution of 20 per cent of basic salary up to a maximum of £75,000 and Adam Semple will be offered a pension contribution of 18 percent of salary up to a maximum of £50,000. Ian Cochrane and Derek Randall will each receive a salary payment in lieu of pension contribution of £50,000.

Rewards for performance in 2019

Bonus

The annual bonus for 2019 will operate on the same basis as for 2018 and will be consistent with the policy detailed in the remuneration policy section of this report in terms of the maximum bonus opportunity, deferral and clawback provisions. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group.

The performance measures and weightings will be as follows:

Profit performance-based component — 80 per cent

The sliding scale range for bonus targets in 2019 is as follows:

Maximum bonus based on actual PBT versus budget

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

Directors' remuneration report

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

Other performance-based component — 20 per cent

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

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

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

Rewards for performance in 2019

PSP

It is the committee's current intention to grant PSP awards of 100 per cent of salary to the chief executive officer and the chief operating officer and 75 per cent of salary to the Group finance director and the JSSL managing director.

This year, we will set a performance condition for a three-year period commencing on 1 April 2018 and ending on 31 March 2021. These targets reflect the continuing expected recovery of profitability, recognising that market conditions remain challenging in many areas. At the lower threshold, below which no awards will vest, we have set a target EPS equivalent to PBT of £29.5m. If this level is achieved, 25 per cent of the shares granted will vest. At the higher end, we have set a target EPS equivalent to PBT of £36.5m. If this is achieved, 100 per cent of the shares granted will vest. Vesting at EPS levels between the lower and upper thresholds will be calculated by linear interpolation.

This represents an increase in the lower vesting threshold of £4.5m (18 per cent) and in the threshold at which maximum vesting takes place of £7.0m (24 per cent). When setting this target range, the committee considered a number of reference points including internal financial forecasts, external analyst consensus, the base EPS and a broad view of the wider construction industry. This reflects, in the view of the committee, a realistic performance range whilst maintaining the targets at an appropriately stretching level. They will require management to deliver strong, sustainable performance over the period without encouraging undue risk-taking and in the context of the market environment are considered more challenging than targets set for prior awards.

How will the non-executive directors be paid in the 2019 financial year?

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

£	2019	2018
Chairman	125,000	175,000*
Basic fee for other non-executive directors	40,000	40,000
Additional fee for SID role	5,000	5,000
Additional fee for chairman of audit and remuneration committees	5,000	5,000

* This was the agreed figure for John Dodds' temporary appointment as executive chairman.

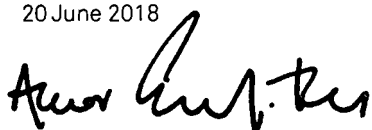
Approval

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

Alun Griffiths

Chairman of the remuneration committee

20 June 2018



Directors' responsibilities statement

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements

that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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

We confirm that to the best of our knowledge:

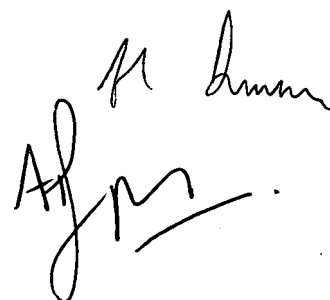
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report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

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

By order of the board

Alan Dunsmore
Chief executive officer
20 June 2018

Adam Semple
Group finance director
20 June 2018



Our financials — Group

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Our financials — Company

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Independent auditor's report

to the members of Severfield plc only

1. Our opinion is unmodified

We have audited the financial statements of Severfield plc ("the Company") for the year ended 31 March 2018 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 2 September 2015. The period of total uninterrupted engagement is for the three financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£1,100,000 (2017: £900,000)	
	5.0% (2017: 5.0%) of total Group profit before tax	
Coverage	98% (2017: 98%) of total Group profit before tax	
Risks of material misstatement		vs 2017
Recurring risks	Carrying value of construction contracts balance, and revenue and profit recognition in relation to construction contracts	↔
	Carrying value of Indian joint venture investment (Group and parent)	↔
	Carrying value of parent Company's investments in subsidiaries	↔

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

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

	The risk	Our response
Carrying value of construction contracts balance and revenue and profit recognition in relation to construction contracts Revenue: £274.2m (2017: £262.2m) Construction contracts: £45.6m (2017: £59.1m) Refer to page 88 (audit committee report), pages 134 and 139 (accounting policies) and note 16 (financial disclosure).	Subjective estimate The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract balance as well as the revenue and profit recognised are based on estimates of costs to complete and a level of unagreed variations and judgement as to the recoverability of those variations. Estimated contract costs, and as a result revenues, can be affected by a variety of uncertainties, including associated customer claims, that depend on the outcome of future events resulting in revisions throughout the contract period.	Our procedures included: • Test of details: Identifying contracts with risk indicators including: low margin or loss making contracts, high values of unagreed variations and large carrying value of amounts receivable on contracts. For these contracts we agreed the year-end construction contract balance to the cash recovered post period end or the work certified to date; • Test of details: Challenging the Group in respect of construction contract balances in the sample identified, where cash has not been received or work has not been certified post year-end, by obtaining correspondence with the clients to corroborate the position; • Historical comparisons: Assessing the forecasted cost to complete in the sample identified by understanding contract performance and costs incurred post year-end along with discussions and challenge of management; • Test of details: Verifying the existence of customer claims to external correspondence and challenging management's assessment of these; • Historical comparisons: Assessing the forecasting accuracy of contract margins by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved; • Assessing transparency: Assessing the adequacy of the Group's disclosures on revenue recognition and the degree of estimation involved in arriving at the construction contract balance and associated revenue and profit recognition. Our results • We found the carrying value of construction contracts, and the level of revenue and profit recognition in relation to construction contracts to be acceptable (2017: acceptable).

Independent auditor's report

to the members of Severfield plc only

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

	The risk	Our response
Carrying value of Indian joint venture investment (Group and parent) Investment in Indian joint venture (Group): £10.7m (2017: £4.6m) Investment in Indian joint venture (parent): £18.9m (2017: £13.3m) <i>Refer to page 88 (audit committee report), pages 133 and 139 (accounting policies) and note 14 (financial disclosure)</i>	Forecast-based valuation The carrying value of the investment in the joint venture is at risk of impairment due to its recent performance. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. Significant areas of judgement include sales growth rates, operating margins and the discount rate applied to future cash flows.	Our procedures included: • Benchmarking assumptions: We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected growth and discount rates; • Sensitivity analysis: Performing sensitivity analysis on key assumptions to understand their impact on headroom; • Historical comparisons: Assessed actual performed against budget to understand historical budgeting accuracy; • Assessing transparency: We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of the investment in the joint venture. Our results • We found the Group's assessment of the carrying value of the investment in the Indian joint venture to be acceptable (2017: acceptable).
Carrying value of parent Company's investments in subsidiaries £73.6m; (2017: £73.7m) <i>Refer to page 166 (accounting policy) and page 168 (financial disclosures).</i>	Low risk, high value: The carrying amount of the parent Company's investments in subsidiaries represents 34% (2017: 35%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: • Tests of detail: Comparing the carrying amount of 100% of investments balance with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making; • Assessing subsidiary audits: Assessing the work performed by the subsidiary audit team on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets; • Our sector experience: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' profit. Our results • We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

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

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

Materiality for the Group financial statements as a whole was set at £1,100,000 (2017: £900,000), determined with reference to a benchmark of total Group profit before tax, of which it represents 5.0% (2017: 5.0% of total Group profit before tax).

Materiality for the parent Company financial statements as a whole was set at £900,000 (2017: £675,000), determined with reference to a benchmark of Company total assets, of which it represents 0.4% (2017: 0.3%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £55,000 (2017: £45,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's seven (2017: seven) reporting components, we subjected six (2017: six) to full scope audits for Group purposes. For the residual component, we performed analysis at a Group level to re-examine our assessment that there were no significant risks of material misstatement within that component.

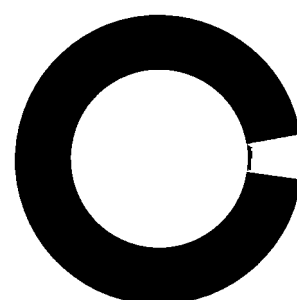
The components within the scope of our work accounted for the percentages illustrated opposite.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team also approved the component materialities ranging from £250,000 to £900,000 (2017: £320,000 to £675,000) having regard to the mix of size and risk profile of the Group across the components. The work on one of the seven components (2017: one of the seven components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

The Group team visited one (2017: one) component location in India (2017: India) to assess audit risk and strategy. Telephone conference meetings were also held with the component audit team. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Total profit before tax

£22,179,000
(2017: £18,055,000)



■ Total profit before tax
□ Group materiality

Group materiality

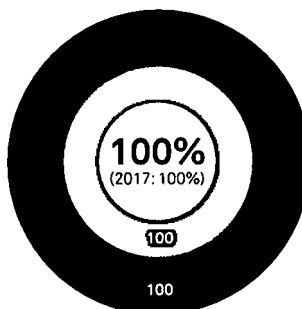
£1,100,000 (2017: £900,000)

£1,100,000
Whole financial statements materiality (2017: £900,000)

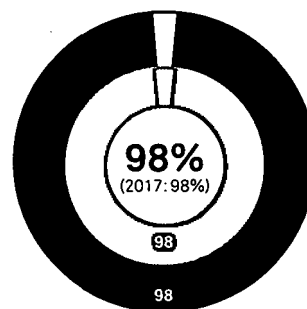
£900,000
Range of materiality at seven components (£250,000-£900,000) (2017: £320,000 - £675,000)

£55,000
Misstatements reported to the audit committee (2017: £45,000)

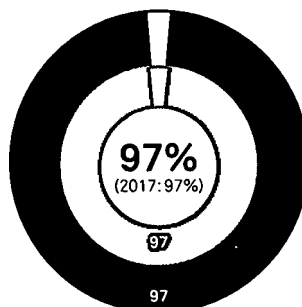
Group revenue



Total Group profit before tax



Group total assets



■ Full scope for Group audit purposes 2018
□ Full scope for Group audit purposes 2017
□ Residual components

Independent auditor's report

to the members of Severfield plc only

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on pages 45 and 95 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within page 45 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Corporate governance disclosures

We are required to report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 117, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition, we considered the impact of laws and regulations in the specific area of health and safety recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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

Adrian Stone (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor
 Chartered Accountants
 One Sovereign Square, Sovereign Street
 Leeds, LS1 4DA
 20 June 2018

Consolidated income statement

Year ended 31 March 2018

		Underlying	Non-	Total	Underlying	Non-	Total
	Note	2018	underlying	2018	2017	underlying	2017
		£000	2018	£000	£000	2017	£000
Continuing operations							
Revenue	3	274,203	—	274,203	262,224	—	262,224
Operating costs	4	(251,337)	(1,333)	(252,670)	(242,610)	(1,790)	(244,400)
Operating profit before share of results of JVs and associates		22,866	(1,333)	21,533	19,614	(1,790)	17,824
Share of results of JVs and associates	14	882	—	882	457	—	457
Operating profit		23,748	(1,333)	22,415	20,071	(1,790)	18,281
Net finance expense	7	(236)	—	(236)	(226)	—	(226)
Profit before tax		23,512	(1,333)	22,179	19,845	(1,790)	18,055
Taxation	8	(4,385)	352	(4,033)	(3,306)	580	(2,726)
Profit for the year attributable to the equity holders of the parent		19,127	(981)	18,146	16,539	(1,210)	15,329
Earnings per share:							
Basic	10	6.38p	(0.33p)	6.05p	5.53p	(0.40p)	5.13p
Diluted	10	6.29p	(0.32p)	5.97p	5.49p	(0.40p)	5.09p

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

Consolidated statement of comprehensive income

Year ended 31 March 2018

		Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
	Note		
Actuarial gain/(loss) on defined benefit pension scheme*	28	3,606	(7,412)
Gains/(losses) taken to equity on cash flow hedges	23	435	(93)
Reclassification adjustments on cash flow hedges	23	(346)	110
Tax relating to components of other comprehensive income*	19	(700)	1,071
Other comprehensive income for the year		2,995	(6,324)
Profit for the year from continuing operations		18,146	15,329
Total comprehensive income for the year attributable to equity holders of the parent		21,141	9,005

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

Consolidated balance sheet

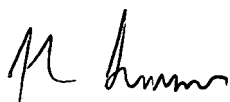
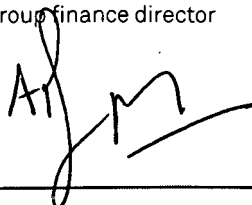
At 31 March 2018

	Note	At 31 March 2018 £000	At 31 March 2017 £000
Assets			
Non-current assets			
Goodwill	11	54,712	54,712
Other intangible assets	12	103	1,574
Property, plant and equipment	13	81,239	78,909
Interests in JVs and associates	14	18,456	12,068
Deferred tax asset	19	—	1,029
		154,510	148,292
Current assets			
Inventories	15	9,646	7,750
Trade and other receivables — due after one year £1,768 (2017: £1,775)	17	56,270	66,398
Derivative financial instruments	20	167	109
Cash and cash equivalents	20	33,114	32,849
		99,197	107,106
Total assets		253,707	255,398
Liabilities			
Current liabilities			
Trade and other payables	18	(64,225)	(75,673)
Financial liabilities — finance leases	20	(180)	(180)
Current tax liabilities		(1,645)	(2,862)
		(66,050)	(78,715)
Non-current liabilities			
Retirement benefit obligations	28	(17,248)	(21,414)
Financial liabilities — finance leases	20	(49)	(229)
Deferred tax liabilities	19	(1,363)	(883)
		(18,660)	(22,526)
Total liabilities		(84,710)	(101,241)
Net assets		168,997	154,157
Equity			
Share capital	22	7,492	7,471
Share premium		85,702	85,702
Other reserves	23	4,749	3,710
Retained earnings		71,054	57,274
Total equity		168,997	154,157

The consolidated financial statements were approved by the board of directors on 20 June 2018 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Sample
Group finance director

Consolidated statement of changes in equity

Year ended 31 March 2018

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

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

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016		7,437	85,702	2,300	52,767	148,206
Total comprehensive income for the year		—	—	17	8,988	9,005
Ordinary shares issued*		34	—	—	—	34
Equity settled share-based payments	21	—	—	1,393	597	1,990
Dividends paid		—	—	—	(5,078)	(5,078)
At 31 March 2017		7,471	85,702	3,710	57,274	154,157

* The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award which vested in June, September and November 2016.

Consolidated cash flow statement

Year ended 31 March 2018

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Net cash flow from operating activities	24	19,039	24,977
Cash flows from investing activities			
Proceeds on disposal of land and buildings		—	1,195
Proceeds on disposal of other property, plant and equipment		1,012	436
Purchases of land and buildings		(412)	(1,517)
Purchases of other property, plant and equipment		(5,996)	(5,442)
Investment in JVs and associates		(5,506)	(413)
Net cash used in investing activities		(10,902)	(5,741)
Cash flows from financing activities			
Interest paid		(202)	(162)
Dividends paid		(7,490)	(5,078)
Repayment of obligations under finance leases		(180)	(180)
Net cash used in financing activities		(7,872)	(5,420)
Net increase in cash and cash equivalents		265	13,816
Cash and cash equivalents at beginning of year		32,849	19,033
Cash and cash equivalents at end of year		33,114	32,849

Notes to the consolidated financial statements

Year ended 31 March 2018

1. Significant accounting policies

General information

Severfield plc ('the Company') is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is provided on page 171. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 16 to 21. These financial statements are presented in sterling, which is the currency of the primary economic environment in which the Group operates.

Basis of accounting

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

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

EU Endorsed International Financial Reporting Standards effective in the year

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

- IAS 7 'Statement of cash flows' – amendments relating to the International Accounting Standards Board's (IASB) disclosure initiative intended to provide information to help investors better understand the changes in a company's debt.
- IAS 12 'Income taxes' – amendments relating to the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

EU International Financial Reporting Standards not yet effective

The following new or revised standards and interpretations issued by the International Accounting Standards Board have not been applied in preparing these financial statements as their effective dates fall in periods beginning on or after 1 April 2018.

Effective for the year ending 31 March 2019

- IFRS 15 'Revenue from contracts with customers' – provides a single model for measuring and recognising revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. It supersedes all existing revenue requirements in IFRS.
- IFRS 9 'Financial instruments' – introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.
- IFRS 2 'Share-Based Payment' – amendments clarifying how to account for certain types of share-based payment transactions.
- IAS 40 'Investment Property' – amendments relating to the transfers of investment property.
- IFRS 4 'Insurance Contracts' – amendments clarifying how to apply IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'.
- IFRIC 22 'Foreign Currency Transactions and Advance Considerations' – clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- Annual improvements to IFRS Standards 2014-2016 cycle.

Notes to the consolidated financial statements

Year ended 31 March 2018

1. Significant accounting policies continued

Effective for the year ending 31 March 2020

- IFRS 16 'Leases' – provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed.
- IFRS 9 'Financial Instruments' – amendments relating to prepayment features with negative compensation to address the concerns about how IFRS 9 classifies particular prepaid financial assets.
- IAS 28 'Investments in Associated and Joint Ventures' – amendments to long-term interests in Associated and Joint Ventures (not yet EU endorsed).
- IAS 19 'Employee Benefits' – amendments to accounting for curtailments and settlements (not yet EU endorsed).
- IFRIC 23 'Uncertainty over Income Tax Treatments' – the Interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments (not yet EU endorsed).
- Annual improvements to IFRS Standards 2015-2017 cycle (not yet EU endorsed).

Effective for the year ending 31 March 2021

- IFRS 17 'Insurance Contracts' – replaces IFRS 4 'Insurance Contracts' as the Standard for setting out requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds (not yet EU endorsed).
- Amendments to References to the Conceptual Framework in IFRS Standards (not yet EU endorsed).

IFRS 15

IFRS 15 'Revenue from contracts with customers' was issued by the IASB in May 2014 and became effective for accounting periods beginning on or after 1 January 2018. The new standard modifies the determination of how much revenue to recognise, and when, and introduces a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 replaces the separate models for goods, services and construction contracts currently included in IAS 11 'Construction Contracts' and IAS 18 'Revenue'. This new standard will be effective for the Group's 2019 year-end.

The directors have performed a detailed assessment of the impact of IFRS 15 on a sample of the Group's current contracts. The conclusion of this assessment is that the directors are satisfied that no material adjustments will be required on the initial application of the new standard. This is because, under IFRS 15, the services provided under a typical contract for the Group represent one performance obligation, providing the customer with an integrated solution and where the services (and consequently any variations and claims) are highly interrelated. Furthermore, revenue on construction contracts meets the criteria for over time recognition under IFRS 15 and revenue will be recognised with reference to measurement of contract progress (costs to complete). This is similar to that under IAS 11 'Construction Contracts'.

It is intended that the standard will be implemented with full retrospective application in the Group's 2019 financial statements (including IFRS 15 comparatives for 2018). The choice of transitional practical expedients is being finalised and will be determined before the Group issues the 2019 annual report.

Additional disclosures required as a result of adopting IFRS 15 will be presented in the 2019 annual report.

IFRS 16

IFRS 16 'Leases' was issued by the IASB in January 2016 and will become effective for accounting periods beginning on or after 1 January 2019. The new standard will replace IAS 17 'Leases' and will eliminate the classification of leases as either operating leases or finance leases and, instead, introduce a single lessee accounting model. The new standard requires lessees to recognise right of use assets and liabilities in the balance sheet for all applicable leases. Operating lease costs currently recognised within operating profit in the income statement will be replaced by depreciation and finance costs. This new standard will be effective for the Group's 2020 year-end. The directors are still in the process of assessing the potential impact of IFRS 16 on the Group's accounting for leases.

Notwithstanding IFRS 15 and IFRS 16, the directors do not expect the other standards above to have a material quantitative effect. The Group has not chosen to adopt any of the above standards and interpretations earlier than required.

1. Significant accounting policies continued

Going concern

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

The key factors considered by the directors in making the statement are set out within the financial review on page 45.

Basis of consolidation

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

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

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

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

Non-underlying items

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

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

Items that may give rise to classification as non-underlying include, but are not limited to, the amortisation of acquired intangible assets, movements in the valuation of derivative financial instruments and certain non-recurring legal and consultancy costs. During the prior year, the Group adopted hedge accounting and, to the extent the hedge is effective, movements in the valuation of derivative financial instruments are recognised directly in other comprehensive income rather than as a non-underlying item. Further details on hedge accounting are included in the derivative financial instruments and hedge accounting policy.

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

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Investments in joint ventures and associates

An associated company is an entity over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

A joint venture is an entity over which the Group is in a position to exercise joint control. The Group has adopted the equity method of accounting (as discussed below) for joint ventures and associated companies (together 'JVs and associates'), in accordance with IFRS 11.

Notes to the consolidated financial statements

Year ended 31 March 2018

1. Significant accounting policies continued

The results and assets and liabilities of JVs and associates are incorporated in these financial statements using the equity method of accounting unless it meets the exceptions described in IAS 28. Investments in JVs and associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of their net assets, less any impairment in the value of individual investments. Losses in excess of the Group's interest in those JVs and associates are not recognised unless, and only to the extent that, the Group has incurred legal or constructive obligations on their behalf.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

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

Goodwill

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

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

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

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

Revenue recognition

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

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

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

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

Construction contracts

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

The general principles for profit recognition are as follows:

- Revenues on contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably.
- Provision is made for total losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.
- Variations are included in forecast contract revenues when it is considered probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.

1. Significant accounting policies continued

- Incentive payments are included in forecast contract revenues when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payment can be reliably measured.
- Claims receivable are recognised as income when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim, and the amount that it is probable will be accepted by the customer can be measured reliably.
- Rectification work which is reasonably foreseeable is provided for as a cost of the contract and taken into account when assessing its overall profitability. Claims for rectification arising after the end of a contract and which have not been provided for are recognised as losses as they arise.

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

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

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

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

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

Leases

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

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

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

Retirement benefit obligations

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

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

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

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

Notes to the consolidated financial statements

Year ended 31 March 2018

1. Significant accounting policies continued

Taxation

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

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

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

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

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

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

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

Dividends

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

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

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

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

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

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

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

1. Significant accounting policies continued

Intangibles

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

Other acquired intangible assets include software costs.

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Trade receivables

Trade receivables are classified as loans and receivables, and therefore measured at amortised cost using the effective interest method, less any impairment losses.

Notes to the consolidated financial statements

Year ended 31 March 2018

1. Significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest over the relevant period.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

The Group issues equity settled share-based payments. These share-based payments are measured at fair value at the date of grant based on the Group's estimate of shares that will eventually vest. The fair value determined is then expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 21.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and, as appropriate, are discounted to present value where the effect is material.

Derivative financial instruments and hedge accounting

The Group enters into certain foreign exchange forward contracts to manage its exposure to currency movements. Further details of derivative financial instruments are disclosed in note 20.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss, except where hedge accounting is used, provided the conditions specified by IAS 39 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IAS 39 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as cash flow hedges.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be recycled to the income statement (operating costs).

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

2. Critical accounting judgements and estimates

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

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

Revenue and profit recognition

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

Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

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

At the balance sheet date, amounts due from construction contract customers, included in trade and other receivables was £45,565,000 (2017: £59,084,000).

Impairment of investments in joint ventures and associates

The carrying value of the Group's investment in its Indian joint venture has been tested for impairment.

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

The carrying value of the Group's investment in the Indian joint venture was £10,657,000 (2017: £4,619,000) at the balance sheet date.

Contingent liabilities

On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised only where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of contingent liabilities is made in note 26 unless the possibility of a loss arising is considered remote. These potential liabilities are subject to uncertain future events, may extend over several years and their timing may differ from current assumptions. Management applies its judgement in determining whether or not a liability on the balance sheet should be recognised or a contingent liability should be disclosed.

Retirement benefit obligations

The Group's defined benefit pension scheme has been valued in accordance with IAS 19 'Employee benefits'. The benefit obligation is calculated using a number of assumptions including changes in the discount and mortality rates (as disclosed in note 28). The present value of the benefit obligations is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date.

Notes to the consolidated financial statements

Year ended 31 March 2018

2. Critical accounting judgements and estimates continued

Significant judgement is required in setting the criteria for the valuation of the liability. Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the difference between expected and actual returns on the scheme's assets are classified as actuarial gains and losses.

The defined benefit obligation recognised at the balance sheet date was £17,248,000 (2017: £21,414,000).

Of the items discussed above, revenue and profit recognition represents the key source of estimation uncertainty.

3. Revenue and segmental analysis

Revenue

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

	2018 £000	2017 £000
Revenue from construction contracts	274,203	262,224
Total revenue	274,203	262,224
Other operating income (note 4)	700	671
Interest received (note 7)	10	15
Total income	274,913	262,910

Segmental results

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

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

Revenues by product group

All revenue is derived from construction contracts and related assets.

Geographical information

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

	2018 £000	2017 £000
Revenue by destination:		
United Kingdom	252,080	249,034
Republic of Ireland and mainland Europe	22,123	13,190
	274,203	262,224

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

Information about major customers

Included in Group revenue is £55,739,000 and £39,047,000 relating to two major customers, who individually contributed more than 10 per cent of Group revenue in the year ended 31 March 2018. In the prior year, Group revenue included £49,301,000 relating to one major customer, who individually contributed more than 10 per cent of Group revenue.

4. Operating costs

	2018 £000	2017 £000
Raw materials and consumables (including subcontractor costs)	142,617	138,764
Staff costs (note 6)	70,237	67,675
Other operating charges	32,851	29,986
Amortisation of other intangible assets (note 12)	138	286
Operating lease expense:		
— plant and machinery	1,277	1,316
— other	1,261	1,671
Depreciation (note 13):		
— owned property, plant and equipment	3,556	3,483
— property, plant and equipment held under finance leases	100	100
Other operating income	(700)	(671)
Operating costs before non-underlying items	251,337	242,610
Non-underlying items (note 5)	1,333	1,790
	252,670	244,400
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	18	17
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	150	147
— audit-related assurance services	16	15
— other assurance services	34	8

Fees payable to KPMG LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

In addition to the non-audit fees above, the Group incurred non-audit fees of £38,000 (2017: £47,000) in respect of other assurance services provided to its Indian joint venture.

Details of the Group's policy on the use of the auditor for non-audit services, the reason why the auditor was used and how the auditor's independence and objectivity were safeguarded, are set out in the audit committee report on pages 88 and 89. No services were performed pursuant to contingent fee arrangements.

5. Non-underlying items

	2018 £000	2017 £000
Amortisation of acquired intangible assets (note 12)	1,333	2,620
Movement in fair value of derivative financial instruments	—	(830)
Non-underlying items before tax	1,333	1,790
Tax on non-underlying items	(352)	(580)
Non-underlying items after tax	981	1,210

The basis for stating results on an underlying basis is set out on page 5. The board believes that non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying performance of the Group. Their separate identification results in the calculation of an underlying profit measure, which is the same as that presented and reviewed by management. Accordingly, adjusted performance measures have been used throughout the annual report to describe the Group's underlying performance.

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

Notes to the consolidated financial statements

Year ended 31 March 2018

5. Non-underlying items continued

In the prior year, a non-cash profit on derivative financial instruments of £830,000 was recognised in relation to the movement in fair values of foreign exchange contracts. No similar items have been recorded in the income statement for the current period following the adoption of hedge accounting at the 2017 financial year-end.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 107.

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

	2018 Number	2017 Number
Production and site	1,221	1,215
Sales and administration	133	112
	1,354	1,327

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	61,290	59,209
Social security costs	6,707	6,500
Other pension costs	2,240	1,966
	70,237	67,675

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

7. Net finance expense

	2018 £000	2017 £000
Finance income	(10)	(15)
Finance expense	246	241
	236	226

8. Taxation

a) The taxation charge comprises:

	2018 £000	2017 £000
Current tax		
UK corporation tax	(3,047)	(3,465)
Adjustments to prior years' provisions	(176)	(121)
	(3,223)	(3,586)
Deferred tax (note 19)		
Current year (charge)/credit	(963)	577
Impact of reduction in future years' tax rates	99	222
Adjustments to prior years' provisions	54	61
	(810)	860
	(4,033)	(2,726)

8. Taxation continued

b) Tax reconciliation

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

	2018 £000	2017 £000
Profit before tax	22,179	18,055
Tax on profit on ordinary activities at standard UK corporation tax rate	(4,214)	(3,611)
Expenses not deductible for tax purposes	165	(124)
Tax effect of share of results of JVs and associates	39	91
Unprovided deferred tax movement	—	756
Adjustments to prior years' provisions	(122)	(60)
Rate differences	99	222
	(4,033)	(2,726)

Corporation tax was calculated at 19 per cent (2017: 20 per cent) of the estimated taxable result for the year.

The unprovided deferred tax movement in the prior year represents the recognition of previously unrecognised tax losses (see note 19).

9. Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2017 of 1.6p per share (2016: 1.0p)	4,793	2,985
Interim dividend for the year ended 31 March 2018 of 0.9p per share (2017: 0.7p)	2,697	2,093
	7,490	5,078

The directors are recommending a final dividend in respect of the financial year ended 31 March 2018 of 1.7p per share, which will amount to an estimated dividend payment of £5,155,000. If approved by the shareholders at the annual general meeting on 4 September 2018, this dividend will be paid on 14 September 2018 to shareholders who are on the register of members at 17 August 2018. In addition, the directors are also recommending a special dividend of 1.7p per share. The final and special dividends are not restated on the balance sheet at 31 March 2018 as they remain subject to shareholder approval.

Notes to the consolidated financial statements

Year ended 31 March 2018

10. Earnings per share

Earnings per share is calculated as follows:

	2018 £000	2017 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent Company	18,146	15,329
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent Company	19,127	16,539
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	299,682,810	298,855,911
Effect of dilutive potential ordinary shares	4,520,463	2,218,914
Weighted average number of ordinary shares for the purposes of diluted earnings per share	304,203,273	301,074,825
Basic earnings per share	6.05p	5.13p
Underlying basic earnings per share	6.38p	5.53p
Diluted earnings per share	5.97p	5.09p
Underlying diluted earnings per share	6.29p	5.49p

	2018 £000	2017 £000
Reconciliation of earnings		
Net profit attributable to equity holders of the parent Company	18,146	15,329
Non-underlying items	981	1,210
Underlying net profit attributable to equity holders of the parent Company	19,127	16,539

Further details of non-underlying items are provided in note 5.

11. Goodwill

The goodwill balance was created on the following acquisitions:

	£000
On the Fisher Engineering acquisition in 2007	47,980
On the Atlas Ward acquisition in 2005	6,571
On the Watson Steel Structures acquisition in 2001	161
	54,712

All of the acquisitions above are included in one reported segment (construction contracts) and the cash flows of the businesses are closely related. Testing for impairment is performed at the operating segment level, which is the level at which management monitors goodwill for internal purposes.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired.

The recoverable amounts of goodwill are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations on future changes in the market.

The Group prepares forecast cash flows based on the following year's budget, approved by the directors, together with cash flows based on projections for the following two years which are derived from the Group's strategic plan. After this period, cash flows have been extrapolated using a growth rate of 1.5 per cent (2017: 1.5 per cent) which does not exceed the long-term growth rate for the relevant markets. The cash flow forecasts have been discounted using a pre-tax discount rate of 10 per cent (2017: 10 per cent).

11. Goodwill continued

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2018.

Management has run a number of sensitivities when performing the impairment reviews, including a reduction in operating margin and an increased discount rate. None of those scenarios resulted in an impairment to goodwill. Management considers that no reasonably possible change in the key assumptions would cause the goodwill to fall below its carrying value at 31 March 2018.

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
At 1 April 2016 and 31 March 2018	39,000	1,033	40,033
Amortisation			
At 1 April 2016	35,047	506	35,553
Charge for the year	2,620	286	2,906
At 1 April 2017	37,667	792	38,459
Charge for the year	1,333	138	1,471
At 31 March 2018	39,000	930	39,930
Carrying amount			
At 31 March 2018	—	103	103
At 31 March 2017	1,333	241	1,574

The intangible assets acquired on acquisition arise as a result of applying IFRS 3, which requires the separate recognition of acquired intangibles from goodwill. The Group's acquired intangible assets are as follows:

	Customer relationships £000	Brands £000	Order book £000	Know-how £000	Total £000
Cost					
At 1 April 2016 and 31 March 2018	25,800	3,200	9,600	400	39,000
Amortisation					
At 1 April 2016	21,907	3,200	9,600	340	35,047
Charge for the year	2,580	—	—	40	2,620
At 1 April 2017	24,487	3,200	9,600	380	37,667
Charge for the year	1,313	—	—	20	1,333
At 31 March 2018	25,800	3,200	9,600	400	39,000
Net book value					
At 31 March 2018	—	—	—	—	—
At 31 March 2017	1,313	—	—	20	1,333

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

Notes to the consolidated financial statements

Year ended 31 March 2018

13. Property, plant and equipment

	Freehold and long leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 April 2016	65,878	37,969	4,010	457	108,314
Additions	1,517	4,702	641	98	6,958
Disposals	(1,526)	(1,676)	(40)	(264)	(3,506)
At 1 April 2017	65,869	40,995	4,611	291	111,766
Additions	412	3,719	2,277	—	6,408
Disposals	—	(4,934)	(964)	(53)	(5,951)
At 31 March 2018	66,281	39,780	5,924	238	112,223
Accumulated depreciation					
At 1 April 2016	4,484	24,450	1,745	273	30,952
Charge for the year	530	2,747	235	71	3,583
Disposals	(60)	(1,367)	(40)	(211)	(1,678)
At 1 April 2017	4,954	25,830	1,940	133	32,857
Charge for the year	536	2,628	428	64	3,656
Disposals	—	(4,573)	(918)	(38)	(5,529)
At 31 March 2018	5,490	23,885	1,450	159	30,984
Carrying amount					
At 31 March 2018	60,791	15,895	4,474	79	81,239
At 31 March 2017	60,915	15,165	2,671	158	78,909

The net book value of the Group's plant and machinery includes £602,000 (2017: £702,000) of assets held under finance leases.

14. Interests in JVs and associates

The Group has an interest in an associated company and two joint ventures as follows:

	Holding %	Class of capital
Associated companies:		
Fabsec Limited — development of fire beam	25.0	Ordinary
Joint ventures:		
JSW Severfield Structures Limited — structural steelwork serving the Indian market	50.0	Ordinary
Composite Metal Flooring Limited — manufacturer of cold rolled metal products	50.0	Ordinary

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

14. Interests in JVs and associates continued

JSW Severfield Structures Limited is registered in India. During the year, the Group invested a further £5,506,000 (2017: £nil) in the joint venture to support the full repayment of the joint venture's term debt of c.£11.0m in June 2017 (which was matched by our joint venture partner, JSW Steel). As a result of the continued close to break-even profit position of the Indian joint venture, the Group's investment in the Indian joint venture of £10,657,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2020 to 2022. The calculations assume a long-term growth rate of 1.5 per cent (2017: 1.5 per cent) from 2023 onwards and a pre-tax discount rate of 10 per cent (2017: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2018 (2017: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment.

The Group did not make any further investments in either CMF Limited, or Fabsec Limited during the year (2017: £nil).

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 1 April 2016	5,326	6,285	11,611
Profit retained	—	457	457
At 1 April 2017	5,326	6,742	12,068
Profit retained	—	882	882
Investments made during the year	—	5,506	5,506
At 31 March 2018	5,326	13,130	18,456

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

	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	Total £000
Share of results				
2018	—	532	350	882
2017	—	151	306	457

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

	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	2018 £000	2017 £000
Current assets	1,042	44,610	10,953	56,605	50,663
Non-current assets	134	22,889	4,762	27,785	31,378
Current liabilities	(17)	(48,822)	(8,830)	(57,669)	(61,651)
Non-current liabilities	(2,239)	(454)	(1,980)	(4,673)	(9,050)
Net assets	(1,080)	18,223	4,905	22,048	11,340
Group's share of net assets	(271)	9,112	2,453	11,294	5,914
Revenue	178	48,590	18,764	67,532	57,007
Profit after tax	—	1,064	700	1,764	913
Group's share of profit after tax	—	532	350	882	457

There were no contingent liabilities or capital commitments (2017: none) associated with the Group's JVs and associates.

Notes to the consolidated financial statements

Year ended 31 March 2018

15. Inventories

	2018 £000	2017 £000
Raw materials and consumables	4,971	4,461
Work-in-progress	4,675	3,289
	9,646	7,750

16. Construction contracts

	2018 £000	2017 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in trade and other receivables	45,565	59,084
Amounts due to construction contract customers included in trade and other payables	(1,273)	(5,737)
	44,292	53,347
Contract costs incurred plus recognised profits less recognised losses to date	368,571	360,241
Less: progress billings received	(324,279)	(306,894)
	44,292	53,347

17. Trade and other receivables

	2018 £000	2017 £000
Amounts due from construction contract customers (note 16):		
— Current amounts receivable in respect of progress billings	40,738	53,861
— Retentions due within one year	3,059	3,448
— Retentions due after one year	1,768	1,775
Total	45,565	59,084
Other receivables	1,941	260
Prepayments and accrued income	5,758	4,696
Amounts due from JVs and associates	3,006	2,358
	56,270	66,398

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 52 days (2017: 60 days). No interest is charged on receivables.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Before accepting any new customer, the Group uses an external credit rating agency to assess the potential customer's credit quality and defines credit limits by customer. It is Group policy that adequate credit insurance is taken out on all customers to manage the exposure that may arise as the contractual work proceeds. Accordingly, no bad debt provisions are held or expenses incurred. The Group's executive risk committee reviews situations where adequate credit insurance on the Group's customers cannot be purchased in the present economic climate as required.

Due to the nature of the business involving applications for payment, contractually overdue amounts within trade and other receivables are limited to retentions. The Group has rigorous procedures in place for monitoring and obtaining settlement of retentions in a prompt manner.

Overdue retentions at 31 March 2018 were £278,000 (2017: £580,000).

18. Trade and other payables

	2018 £000	2017 £000
Trade creditors	38,030	42,532
Other taxation and social security	5,291	7,215
Other creditors and accruals	19,631	20,189
Payments in advance (note 16)	1,273	5,737
	64,225	75,673

Other creditors and accruals in the current and prior years include the outstanding purchase consideration for CMF of £2,500,000 (2017: £2,500,000), which is payable over the next four years, subject to certain conditions.

The directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period taken for trade purchases, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 42 days (2017: 37 days).

19. Deferred tax assets and liabilities

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	2018 £000	2017 £000
Deferred tax liabilities	(5,364)	(5,547)
Deferred tax assets	4,001	5,693
	(1,363)	146

Deferred tax is disclosed in the balance sheet as follows:

	2018 £000	2017 £000
Deferred tax liabilities	(1,363)	(883)
Deferred tax asset — trading losses	—	1,029
	(1,363)	146

	Excess capital allowances £000	Acquired intangible assets £000	Retirement benefit obligations £000	Trading losses £000	Other timing differences £000	Total £000
At 1 April 2016	(5,550)	(751)	2,773	1,100	643	(1,785)
Credit/(charge) to income statement	(9)	498	(102)	(71)	322	638
Effect of change in tax rate	265	—	(43)	—	—	222
Credit to other comprehensive income	—	—	1,011	—	60	1,071
At 1 April 2017	(5,294)	(253)	3,639	1,029	1,025	146
Credit/(charge) to income statement	(169)	253	(95)	(1,029)	132	(908)
Effect of change in tax rate	99	—	—	—	—	99
Charge to other comprehensive income	—	—	(613)	—	(87)	(700)
At 31 March 2018	(5,364)	—	2,931	—	1,070	(1,363)

Notes to the consolidated financial statements

Year ended 31 March 2018

19. Deferred tax liabilities continued

The rate of corporation tax reduced from 20 per cent to 19 per cent with effect from 1 April 2017. A reduction in the corporation tax rate to 17 per cent from 1 April 2020 was substantively enacted on 6 September 2016. In determining the amounts of deferred tax assets to be recognised, management uses historical profitability information and, if relevant, forecasted operating results, based on approved budgets and forecasts, including a review of the eligible carry-forward periods, tax planning opportunities and other relevant considerations.

20. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while optimising the return to stakeholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The board reviews the capital structure of the Group on a semi-annual basis. As part of this review, it considers the cost of capital and the risks associated with each class of capital. The Group monitors capital using the following indicators:

i) Gearing ratio

	2018 £000	2017 £000
Cash and cash equivalents	33,114	32,849
Unamortised debt arrangement fees	83	146
Finance leases	(229)	(409)
Net funds	32,968	32,586
Equity	168,997	154,157
Net debt to equity ratio	N/A	N/A

Equity includes all capital and reserves of the Group attributable to equity holders of the parent. There are no externally imposed capital requirements.

ii) Return on capital employed

Underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity after adding back retirement benefit obligations (net of tax), acquired intangible assets and net funds.

	2018 £000	2017 £000
Underlying operating profit (before JVs and associates)	22,866	19,614
Share of results of JVs and associates	882	457
Underlying operating profit	23,748	20,071
Capital employed:		
Shareholders' equity	168,997	154,157
Cash and cash equivalents	(33,114)	(32,849)
Borrowings	229	409
Net funds (for ROCE purposes)	(32,885)	(32,440)
Retirement benefit obligations (net of deferred tax) (note 28)	14,317	17,775
Acquired intangible assets (note 12)	—	(1,333)
	150,429	138,159
Average capital employed	144,294	137,899
Return on capital employed	16.5%	14.6%

20. Financial instruments continued

Categories of financial instruments

	Carrying value	
	2018 £000	2017 £000
Financial assets		
Cash and cash equivalents	33,114	32,849
Amounts due from construction contract customers (note 16)	45,565	59,084
Derivative financial instruments	167	109
Unamortised debt arrangement fees	83	146
Financial liabilities		
Trade creditors (note 18)	(38,030)	(42,532)
Other creditors and accruals (note 18)	(19,631)	(20,189)
Finance leases	(229)	(409)

The Group's financial instruments consist of borrowings, cash, unamortised debt arrangement fees, items that arise directly from its operations and derivative financial instruments. Cash and cash equivalents, trade and other receivables and trade and other payables generally have short terms to maturity. For this reason their carrying values approximate to fair value. The Group's borrowings relate principally to amounts drawn down against its revolving credit facility, the carrying amounts of which approximate to their fair values by virtue of being floating rate instruments.

The Group is required to analyse financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are the only instruments valued at fair value through profit or loss, and are valued as such on initial recognition. These relate to foreign currency forward contracts measured using quoted forward exchange rates and yield curves matching the maturities of the contracts. These derivative financial instruments are categorised as level 2 financial instruments. Except for derivative financial instruments, the carrying amounts of financial assets and financial liabilities are recorded at amortised cost in the consolidated financial statements.

General risk management principles

The board has overall responsibility for the establishment and oversight of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic, operational and financial risks of the Group is in place to ensure appropriate risk management of its operations. Internal control and risk management systems are embedded in the operations of the divisions.

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the board of directors.

Notes to the consolidated financial statements

Year ended 31 March 2018

20. Financial instruments continued

Credit risk

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors. The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by the general macroeconomic conditions. The Group does not have significant concentration of risk in respect of amounts due from construction contract customers at the reporting date with them being spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 March 2018 were £4,827,000 (2017: £5,223,000).

The Group manages its exposure to credit risk through the application of its credit risk management policies which specify the minimum requirements in respect of the creditworthiness of potential customers, assessed through reports from credit agencies, and the timing and extent of progress payments in respect of contracts. In addition, before accepting any new customer, adequate credit insurance is taken out as reported in note 17. Where credit insurance is difficult to acquire, the executive risk committee determines the appropriate exposure for the Group to take with a customer.

The Group manages the collection of retentions through its post-completion project monitoring procedures and ongoing contact with customers so as to ensure that potential issues that could lead to the non-payment of retentions are addressed as soon as they are identified.

Amounts outstanding from construction contract customers are due with reference to the payment terms for each particular contract but the majority would be receivable within four months from the end of the reporting period. Amounts due for settlement after 12 months are disclosed in note 17.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The ultimate responsibility for liquidity risk rests with the board.

The Group generates cash through its operations and aims to manage liquidity by ensuring that it will always have sufficient financing facilities to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Forecast and actual cash flow is continuously monitored.

The Group has a £25,000,000 revolving credit facility ('RCF') with HSBC Bank plc and Yorkshire Bank which matures in July 2019.

This facility includes an accordion facility of £20,000,000, which allows the Group to increase the aggregate available borrowings to £45,000,000 at the Group's request. The facility is subject to certain covenants including the cover of interest costs and the ratio of net debt to EBITDA.

As at 31 March 2018, £25,000,000 (2017: £25,000,000) of this facility was not drawn but available. Up to £10,000,000 of this facility is available by way of an overdraft.

In accordance with IFRS 7, the following tables detail the Group's remaining contractual maturity for its financial liabilities.

	Carrying value £000	Less than 3 months £000	Maturity analysis			Total £000
			3 months to 1 year £000	1-2 years £000	2-5 years £000	
Liabilities – 2018						
Trade and other payables	57,661	52,376	5,032	49	204	57,661
Financial liabilities — finance leases	229	45	135	49	—	229
	57,890	52,421	5,167	98	204	57,890
Liabilities – 2017						
Trade and other payables	62,721	58,092	3,892	549	188	62,721
Financial liabilities — finance leases	409	45	135	180	49	409
	63,130	58,137	4,027	729	237	63,130

20. Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in credit risks described above, in foreign currency exchange rates and interest rates. The Group has entered into certain derivative financial instruments to manage its exposure to foreign currency risk.

Market risk exposures are monitored and are supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group seeks to minimise the effects of currency risks by using derivative financial instruments when appropriate to hedge these risk exposures against contracted sales. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

The carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 £000	2017 £000	2018 £000	2017 £000
Euro	(1,830)	(2,077)	13,004	5,189
US dollar	(10)	—	25	19
	(1,840)	(2,077)	13,029	5,208

Foreign currency sensitivity analysis

The Group is only significantly exposed to the euro and US dollar.

The following table details the Group's sensitivity to a 10 per cent increase and decrease in sterling against the relevant foreign currencies. Ten per cent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and derivative financial instruments, and adjusts their translation at the year-end for a 10 per cent change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	US dollar currency impact		Euro currency impact	
	2018 £000	2017 £000	2018 £000	2017 £000
Profit or loss and equity	(1)	(2)	1,817	(336)

At present the Group's translation exposure to the Indian rupee via its Indian joint venture is not significant. As the business grows, this exposure is expected to become more significant.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover future euro and US dollar currency receipts on relevant contracts.

Notes to the consolidated financial statements

Year ended 31 March 2018

20. Financial instruments continued

The Group uses forward foreign currency contracts to hedge currency risk associated with expected future sales or purchases for which the Group has firm commitments. The terms of the forward foreign currency contracts are negotiated to match the terms of the commitments. During the year, the Group has applied cash flow hedge accounting to these forward foreign currency transactions. As at 31 March 2018, derivatives designated as cash flow hedges had a net carrying amount of £167,000 (2017: £109,000) and recognised total gains of £89,000 (2017: £17,000) in equity and losses of £31,000 (2017: gains of £92,000) in profit and loss in the period.

At 31 March 2018, the Group had forward exchange contracts of 33.1m euros (2017: 0.3m euros) at an average exchange rate of €1.129/£ (2017: €1.171/£) which mature within 12 months of the year-end.

Interest rate risk management

The Group is exposed to interest rate risk as described under the borrowings paragraph earlier in this note. The Group does not currently hedge any of its interest rate exposure.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the gross amount of liability outstanding at balance sheet date was outstanding for the whole period. A 0.5 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5 per cent higher and all other variables were held constant, the Group's profit for the year ended 31 March 2018 and the Group's equity at that date would decrease by £nil (2017: £nil). If the £25,000,000 facility is fully utilised the exposure increases to £125,000. This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

21. Share-based payments

The Group operates a share-based incentive scheme open to all employees of the Group although the current intention is that only the Company's executive directors (being both board directors and certain members of the executive committee) and selected senior employees will participate in the scheme. These awards will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a three-year period. Further details are given in the directors' remuneration report on pages 98 to 116.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £1,270,000 for the year (2017: £1,667,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.75 per share. Three outstanding awards had been granted to 31 March 2018:

- During the year ended 31 March 2016 the remuneration committee granted 2,147,051 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2015 to 31 March 2018. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2018	% of award vesting
Equal to less than 4.30p	0%
Equal to 6.45p or better	100%
Between 4.30p and 6.45p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.70*
Exercise price	nil
Expected volatility (using historic performance)	74%
Risk-free rate	1.0%
Dividend	1.0p
Actual life	three years

* Granted on 17 June 2015.

The Black-Scholes pricing model produced, using the above assumptions, an annual charge of £488,000 (2017: £593,000).

21. Share-based payments continued

- During the year ended 31 March 2017 the remuneration committee granted 3,244,980 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2016 to 31 March 2019. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2019	% of award vesting
Equal to less than 5.06p	0%
Equal to 6.53p or better	100%
Between 5.06p and 6.53p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.50*
Exercise price	nil
Expected volatility (using historic performance)	69%
Risk-free rate	0.2%
Dividend	1.5p
Actual life	three years

* Granted on 29 June 2016.

The Black-Scholes pricing model produced, using the above assumptions, an annual charge of £301,000 (2017: £681,000).

- During the period ended 31 March 2018 the remuneration committee granted 2,261,100 ordinary shares of 2.5p each at £nil value. The vesting of these awards was dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2017 to 31 March 2020. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2020	% of award vesting
Equal to less than 6.76p	0%
Equal to 7.98p or better	100%
Between 6.76p and 7.98p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.83*
Exercise price	nil
Expected volatility (using historic performance)	26%
Risk-free rate	0.5%
Dividend	2.7p
Actual life	three years

* Granted on 14 June 2017.

The Black-Scholes pricing model produced, using the above assumptions, an annual charge of £522,000 (2017: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2018 Number	2017 Number
Outstanding at the beginning of the year	8,004,458	6,598,550
Granted during the year	2,261,100	3,559,416
Lapsed during the year	(1,190,564)	(796,805)
Vested during the year	(1,649,031)	(1,356,703)
Outstanding at the end of the year	7,425,963	8,004,458

Notes to the consolidated financial statements

Year ended 31 March 2018

21. Share-based payments continued

Save As You Earn share option plan ('Sharesave')

The plan, which was established in 2015 and expires in 2025, is open to all employees on the UK payroll. Participants may elect to save up to £500 per month over the life of the plan under three-yearly savings schemes, each with a separate savings contract. Under the 2015 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2015 Sharesave scheme in 2018 those options will become exercisable for a period of six months. A charge of £324,000 (2017: £323,000) was recognised in the current period in relation to the 2015 Sharesave scheme.

Under the 2017 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2017 Sharesave scheme in 2020, these options will become exercisable for a period of six months. A charge of £135,000 (2017: £nil) was recognised in the current period in relation to the 2017 Sharesave scheme.

Reconciliation of share awards outstanding under the Sharesave plan are as follows:

Save As You Earn option plan ('Sharesave')

	2018 Number	2017 Number
Outstanding at the beginning of the year	3,330,809	3,709,473
Granted during the year	2,880,236	—
Lapsed during the year	(383,319)	(356,699)
Vested during the year	(55,992)	(21,965)
Outstanding at the end of the year	5,771,734	3,330,809

22. Share capital

	2018 £000	2017 £000
Issued and fully paid:		
299,682,810 ordinary shares of 2.5p each (2017: 298,855,911 ordinary shares of 2.5p each)	7,492	7,471

The ordinary shares carry no right to fixed income. There are no share options outstanding as at 31 March 2018 (2017: nil).

23. Other reserves

	Share-based payment reserve £000	Other reserves £000	Total £000
At 1 April 2016	2,161	139	2,300
Share-based payments	1,393	—	1,393
Losses taken to equity on cash flow hedges	—	(93)	(93)
Reclassification adjustments on cash flow hedges	—	110	110
At 31 March 2017	3,554	156	3,710
Share-based payments	950	—	950
Gains taken to equity on cash flow hedges	—	435	435
Reclassification adjustments on cash flow hedges	—	(346)	(346)
At 31 March 2018	4,504	245	4,749

The movement in the share-based payment reserve represents the share-based payment charge of £1,770,000 (2017: £1,990,000) offset by the recycle to retained earnings of £218,000 for share awards vested in 2017 and £602,000 for tax paid on these awards.

Other reserves consist of the capital redemption reserve of £139,000 (2017: £139,000) and the hedge accounting reserve of £106,000 (2017: £17,000).

24. Net cash flow from operating activities

	2018 £000	2017 £000
Operating profit from continuing operations	22,415	18,281
Adjustments:		
Depreciation of property, plant and equipment (note 13)	3,656	3,583
Loss on disposal of land and buildings	—	271
Gain on disposal of other property, plant and equipment	(590)	(73)
Amortisation of intangible assets (note 12)	1,471	2,906
Movements in pension scheme (note 28)	(560)	(600)
Share of results of JVs and associates (note 14)	(882)	(457)
Share-based payments	1,168	1,990
Movement in valuation of derivatives	—	(830)
Operating cash flows before movements in working capital	26,678	25,071
Increase in inventories	(1,896)	(2,456)
Decrease/(increase) in receivables	10,064	(11,648)
(Decrease)/increase in payables	(11,897)	16,386
Cash generated from operations	22,949	27,353
Tax paid	(3,910)	(2,376)
Net cash flow from operating activities	19,039	24,977
	2018 £000	2017 £000
Cash generated from operations	22,949	27,353
Proceeds on disposal of land and buildings	—	1,195
Proceeds on disposal of other property, plant and equipment	1,012	436
Purchases of land and buildings	(412)	(1,517)
Purchases of other property, plant and equipment	(5,996)	(5,442)
	17,553	22,025
Underlying operating profit (before JVs and associates)	22,866	19,614
Operating cash conversion	77%	112%

25. Analysis of net funds

	2018 £000	2017 £000
Cash and cash equivalents	33,114	32,849
Unamortised debt arrangement fees	83	146
Financial liabilities — finance leases	(229)	(409)
	32,968	32,586

Notes to the consolidated financial statements

Year ended 31 March 2018

26. Contingent liabilities

Liabilities have been recorded for the directors' best estimate of uncertain contract positions, known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of the success of claims and actions and no liability is recorded where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation. The Group also has contingent liabilities in respect of other issues that may have occurred, but where no claim has been made and it is not possible to reliably estimate the potential obligation (see note 2).

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 31 March 2018 this amounted to £nil (2017: £nil). The Group has also given performance bonds in the normal course of trade.

27. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2018 and 2087.

The total future minimum lease rentals are as follows:

	2018 £000	2017 £000
Minimum lease rentals due:		
— Within one year	996	1,081
— After one year and within five years	4,024	2,770
— After five years	10,839	10,325
	15,859	14,176

The Group also leases certain items of plant and machinery and vehicles whose total future minimum lease rentals are as follows:

	2018 £000	2017 £000
Minimum lease rentals due:		
— Within one year	1,168	1,257
— After one year and within five years	1,146	1,466
— After five years	1	15
	2,315	2,738

The Group as lessor

Property rental income earned on owned properties during the year was £69,000 (2017: £160,000). The majority of the Group's operating leases expired at the end of the 2018 financial year.

As at the balance sheet date the Group had contracted with tenants for the following future minimum lease payments:

	2018 £000	2017 £000
— Within one year	—	74
— After one year and within five years	—	100
— After five years	—	54
	—	228

28. Retirement benefit obligations

Defined contribution schemes

The Group operates two defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £1,896,000 (2017: £1,803,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2018, contributions of £367,000 (2017: £350,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group has a defined benefit scheme which is now closed to new members and no defined benefit membership rights will accrue under the scheme.

The scheme exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The present values of the scheme liabilities are calculated using a discount rate determined by reference to corporate bond yields; if the return on scheme assets is below this rate, it will create a plan deficit. The Group holds a significant proportion of growth assets (bonds, gilts and equities) to leverage the return generated by the scheme.
Interest risk	A decrease in the corporate bond interest rate will increase the scheme liabilities, although this will be partially offset by an increase in the return on the scheme's assets.
Longevity risk	The present values of the scheme liabilities are calculated by reference to the best estimate of the mortality of scheme participants which reflect continuing improvements in life expectancy. An increase in the life expectancy of the scheme participants will increase the scheme's liabilities.
Salary risk	The present values of the defined benefit scheme liabilities are calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the scheme participants will increase the scheme's liabilities.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 5 April 2014 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. The next triennial funding valuation of the scheme is currently ongoing, with a valuation date of 5 April 2017. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2018 %	2017 %
Key assumptions used:		
Discount rate	2.6	2.7
Inflation (RPI)	3.3	3.4
Future pension increases	3.2	3.3

When considering mortality assumptions a life expectancy to 84 at age 65 has been used for the year ended 31 March 2018 (2017: 85).

Impact on scheme liabilities of changes to key assumptions:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 4.2%
Rate of mortality	Increase by one year	Increase by 4.0%

Notes to the consolidated financial statements

Year ended 31 March 2018

28. Retirement benefit obligations continued

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2018 £000	2017 £000
Interest cost	1,222	1,300
Interest income	(659)	(808)
	563	492

The charge for the year has been included in operating costs. Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative actuarial gains and losses recognised amount to a loss of £16,484,000 (2017: £20,090,000).

The actual return on scheme assets was a gain of £171,000 (2017: £1,228,000).

The amount included in the balance sheet arising from the Group's obligations in respect of the defined benefit retirement scheme is as follows:

	2018 £000	2017 £000
Present value of defined benefit obligations	(41,818)	(45,816)
Fair value of scheme assets	24,570	24,402
	(17,248)	(21,414)

The major categories of scheme assets as a percentage of the total scheme assets are as follows:

	2018 %	2017 %
Equities	23.4	24.2
Bonds and gilts	48.4	53.8
Cash	14.4	5.1
Property	9.6	8.8
Other	4.2	8.1
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately three per cent of bonds have a sub-investment grade credit rating (BB+ or lower) and approximately 92 per cent of gilts are index-linked, with eight per cent being fixed.

Movements in the present value of defined benefit obligations were as follows:

	2018 £000	2017 £000
At start of year	(45,816)	(37,601)
Interest cost	(1,222)	(1,300)
Actuarial gains/(losses)	4,094	(7,832)
Benefits paid	1,126	917
At end of year	(41,818)	(45,816)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were gains of £3,730,000 (2017: £nil), gains of £164,000 (2017: losses of £8,179,000) and gains of £200,000 (2017: gains of £347,000) respectively.

28. Retirement benefit obligations continued

Movements in the fair value of scheme assets were as follows:

	2018	2017
	£000	£000
At start of year	24,402	22,999
Interest income	659	808
Actuarial (losses)/gains	(488)	420
Employer contributions	1,123	1,092
Benefits paid	(1,126)	(917)
At end of year	24,570	24,402

The Group expects to contribute £97,000 (2017: £94,000) per month to its defined benefit pension scheme in the year to 31 March 2019.

History of experience of gains and losses:

	2018	2017	2016	2015	2014
Experience (losses)/gains on scheme assets (£000)	(488)	420	(427)	1,517	(515)
Percentage of scheme assets	(2.0%)	1.7%	(1.8%)	6.7%	(2.6%)
Experience losses/(gains) on scheme liabilities (£000)	200	347	397	(364)	(105)
Percentage of the present value of scheme liabilities	0.5%	0.8%	1.1%	(0.9%)	(0.3%)
Total amount recognised in the consolidated statement of comprehensive income (£000)	3,606	(7,412)	1,300	(4,471)	(1,261)
Percentage of the present value of scheme liabilities	8.6%	(16.2%)	3.5%	(11.5%)	(3.9%)

The weighted average period over which benefits are expected to be paid, or the duration of the liabilities, is currently 17 years.

Notes to the consolidated financial statements

Year ended 31 March 2018

29. Related party transactions

The remuneration of the directors is provided in the audited part of the directors' remuneration report on page 107.

In addition to the board of directors, members of the executive committee are also considered as key management personnel of the Group. Information about the remuneration of the additional directors who belong to the executive committee is as follows:

	2018 £000	2017 £000
Short-term employee benefits	1,485	1,534
Contributions into pension schemes	123	117
	1,608	1,651

Short-term employee benefits include salary, bonus, social security contributions, the provision of company cars, fuel for company cars and private medical insurance.

The charge in relation to share-based payments is provided in note 21 and relates to executive directors, members of the executive committee and selected other members of the senior management team.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated undertakings are disclosed below.

During the year the Group purchased services in the ordinary course of business from Fabsec Limited ('Fabsec') at a cost of £42,000 (2017: £40,000). The amount due to Fabsec at 31 March 2018 was £117,000 (2017: £116,000).

During the year the Group has contracted with and purchased services from Composite Metal Flooring Limited ('CMF') amounting to £3,650,000 (2017: £2,003,000). The amount due from and to CMF at 31 March 2018 was £2,544,000 (2017: £1,882,000) and £595,000 (2017: £649,000) respectively.

During the year the Group incurred additional operating costs in relation to the day-to-day running of its Indian joint venture (JSSL) of £478,000 (2017: £437,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2018 was £746,000 (2017: £476,000).

Five year summary

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Results					
Revenue	274,203	262,224	239,360	201,535	231,312
Underlying* operating profit (before JVs and associates)	22,866	19,614	13,686	8,974	7,621
Underlying* profit before tax	23,512	19,845	13,211	8,311	4,025
Non-underlying items before tax	(1,333)	(1,790)	(3,568)	(8,502)	(8,082)
Profit/(loss) attributable to equity holders of Severfield plc	18,146	15,329	8,600	144	(2,640)
Assets employed					
Non-current assets	154,510	148,292	149,265	145,078	147,650
Net current assets	33,147	28,391	16,837	16,565	14,243
Non-current liabilities	(18,660)	(22,526)	(17,896)	(21,059)	(18,495)
Net assets	168,997	154,157	148,206	140,584	143,398
Key statistics					
Earnings per share:					
Basic — underlying*	6.38p	5.53p	3.67p	2.31p	0.88p
Basic	6.05p	5.13p	2.89p	0.05p	(0.89p)
Diluted — underlying*	6.29p	5.49p	3.65p	2.31p	0.88p
Diluted	5.97p	5.09p	2.87p	0.05p	(0.89p)
Dividends per share	2.60p	2.30p	1.50p	—	—
Dividend cover (times) — underlying* basis	2.6	2.4	2.4	—	—
Share price — high	88.00p	83.50p	73.25p	72.00p	65.50p
— low	59.50p	43.75p	52.75p	53.50p	38.00p

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

Financial calendar

Preliminary announcement of full-year results	20 June 2018
Publication of annual report	August 2018
Annual general meeting	4 September 2018
Announcement of interim results (provisional)	27 November 2018

Company balance sheet

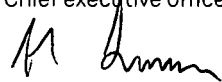
Year ended 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	2	58,241	58,758
Intangible assets		103	240
Investments	3	99,864	94,494
		158,208	153,492
Current assets			
Debtors — amounts falling due within one year	4	53,398	45,538
Cash at bank and in hand		2,095	13,593
		55,493	59,131
Creditors — amounts falling due within one year	5	(94,546)	(99,325)
Net current liabilities		(39,053)	(40,194)
Total assets less current liabilities		119,155	113,298
Capital and reserves			
Share capital		7,492	7,471
Share premium		85,702	85,702
Other reserves		4,604	3,543
Profit and loss account		21,357	16,582
Equity and total shareholders' funds		119,155	113,298

The Company reported a profit for the financial year ended 31 March 2018 of £12,134,000 (2017: £4,742,000).

The financial statements were approved by the board of directors on 20 June 2018 and signed on its behalf by:

Alan Dunsmore
Chief executive officer



Severfield plc
Registered in England No.1721262

Adam Semple
Group finance director



Company statement of changes in equity

Year ended 31 March 2018

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2017	7,471	85,702	3,543	16,582	113,298
Total comprehensive income for the year	—	—	—	12,047	12,047
Ordinary shares issued*	21	—	—	—	21
Liquidation of subsidiary undertakings	—	—	111	—	111
Equity settled share-based payments	—	—	950	218	1,168
Dividends paid	—	—	—	(7,490)	(7,490)
At 31 March 2018	7,492	85,702	4,604	21,357	119,155

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

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2016	7,437	85,702	2,150	16,261	111,550
Total comprehensive income for the year	—	—	—	4,802	4,802
Ordinary shares issued*	34	—	—	—	34
Equity settled share-based payments	—	—	1,393	597	1,990
Dividends paid	—	—	—	(5,078)	(5,078)
At 31 March 2017	7,471	85,702	3,543	16,582	113,298

* The issue of shares represents shares allotted to satisfy the 2013 Performance Share Plan award which vested in June, September and November 2016.

Notes to the Company financial statements

Year ended 31 March 2018

1. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related notes, related party transactions and comparative period reconciliations. In addition, disclosures in relation to share capital (note 22), share premium and dividends (note 9) have not been repeated here as there are no differences to those provided in the consolidated financial statements.

Except as noted below, the Company's accounting policies are consistent with those described in the consolidated financial statements of Severfield plc.

Profit of the parent company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts.

Audit fees

The Company has taken the exemption granted under SI 2008/489 not to disclose non-audit fees paid to its auditor.

Employees

Directors' remuneration and details of their share-based payments are disclosed in the audited part of the directors' remuneration report on page 107 and in notes 6 and 21 to the consolidated financial statements.

Investment properties

Investment properties are stated at cost less provision for impairment. Depreciation is charged annually at one per cent on a straight-line basis.

Investments

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Amounts owed by subsidiary undertakings

The Company holds intercompany loans with subsidiary undertakings which are repayable on demand. None of these loans are past due nor impaired. The carrying value of these loans approximates their fair value.

Intercompany guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

2. Tangible fixed assets

	Freehold and long leasehold land and buildings £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2017	63,298	443	33	63,774
Additions	—	21	—	21
At 31 March 2018	63,298	464	33	63,795
Depreciation				
At 1 April 2017	4,945	48	23	5,016
Charge for the year	484	52	2	538
At 31 March 2018	5,429	100	25	5,554
Net book value				
At 31 March 2018	57,869	364	8	58,241
At 31 March 2017	58,353	395	10	58,758

The Company's freehold and long leasehold land and buildings include those which are occupied and used by some of the Company's subsidiary undertakings (investment properties). The rental income from these assets in the current year was £600,000 (2017: £504,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

Notes to the Company financial statements

Year ended 31 March 2018

3. Investments

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures and associated undertakings, including their country of incorporation, as at 31 March 2018 is disclosed below. All of these had a reporting period ended 31 March 2018, except where indicated.

Name of undertaking	Incorporated in
100% owned by Severfield plc	
Severfield (UK) Limited	England and Wales
Severfield (NI) Limited ⁽ⁱ⁾	Northern Ireland
Atlas Ward Holdings Limited	England and Wales
Watson Steel Structures Limited	England and Wales
Severfield (Products & Processing) Limited	England and Wales
Severfield Europe B.V. ⁽ⁱⁱ⁾	Netherlands
Severfield Reeve Properties Limited	England and Wales
Severfield Reeve Projects Limited	England and Wales
Severfield Reeve International Limited	England and Wales
Severfield Mauritius Limited ⁽ⁱⁱⁱ⁾	Mauritius
100% owned by Atlas Ward Holdings Limited	
Severfield (Design & Build) Limited	England and Wales
100% owned by Severfield Reeve Projects Limited	
Leeds 27 Limited	England and Wales
50% owned by Severfield plc	
Composite Metal Flooring Limited ^(iv)	England and Wales
50% owned by Severfield Mauritius Limited	
JSW Severfield Structures Limited ^(v)	India
25% owned by Severfield plc	
Fabsec Limited ^(vi)	England and Wales

* Companies with a reporting period ended 31 December 2017.

† Unless otherwise stated the registered office address for each of the above is Severs House, Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire, YO7 3JN.

Registered office classification key:

(i) Fisher House, Main Street, Ballinamallard, Enniskillen, Co Fermanagh, BT94 2FY

(ii) Gildelaan 11 2e Verdiepin, 4761 BA Zevenbergen

(iii) Felix House, 24 Dr. Joseph Rivière Street, Port Louis, Mauritius

(iv) Millennium House, Severn Link Distribution Centre, Newhouse Farm Industrial Estate, Mathern, Chepstow, NP16 6UN

(v) 401 Grande Palladium, 4th Floor, 175 CST Road, Kalina, Santacruz East, Mumbai, India, 400098

(vi) Unit 561 Avenue E East, Thorp Arch Estate, Wetherby, LS23 7DB

	2018 £000	2017 £000
Investment in subsidiaries	73,610	73,746
Investment in joint ventures	26,254	20,748
	99,864	94,494

3. Investments continued**Investment in subsidiaries**

£000

Cost

At 1 April 2017	93,946
Liquidation of subsidiary undertakings	(136)
At 31 March 2018	93,810

Provision for impairment

At 1 April 2017 and 31 March 2018	(20,200)
--	-----------------

Net book value

At 31 March 2018	73,610
At 31 March 2017	73,746

During the year, three of the Company's subsidiary undertakings were liquidated resulting in the write-off of the historical investments in these companies of £136,000.

Investment in joint ventures

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

JSW Severfield Structures Limited is registered in India. During the year, the Company invested a further £5,506,000 (2017: nil) in the joint venture to support the full repayment of the joint venture's term debt of c. £11,000,000 in June 2017. The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

As a result of the continued close to break-even profit position of the Indian joint venture, the Company's investment in the joint venture of £18,850,000 has been reviewed for impairment. The recoverable amount of the investment is determined from value in use calculations which are based on the following year's budget, together with financial projections for 2020 to 2022. The calculations assume a long-term growth rate of 1.5 per cent (2017: 1.5 per cent) from 2023 onwards and a pre-tax discount rate of 10 per cent (2017: 10 per cent). Following this review, no impairment charge was recorded in the year ended 31 March 2018 (2017: £nil). Management considers that no reasonably possible change in the key assumptions would result in an impairment; however, the achievement of the forecasts is dependent on the move to a sustainable profit position.

The Company did not make any further investments in CMF Limited during the year (2017: £nil).

£000

Cost

At 1 April 2017	20,748
Additions	5,506
At 31 March 2018	26,254

Notes to the Company financial statements

Year ended 31 March 2018

4. Debtors — amounts falling due within one year

	2018 £000	2017 £000
Other debtors	1,534	527
Amounts owed by subsidiary undertakings	49,919	43,586
Amounts due from JVs and associates	—	101
Corporation tax recoverable	1,945	1,324
	53,398	45,538

5. Creditors — amounts falling due within one year

	2018 £000	2017 £000
Other creditors and accruals	7,304	10,902
Amounts owed to subsidiary undertakings	83,468	84,574
Deferred tax liability (note 6)	3,774	3,849
	94,546	99,325

During the year, amounts of £656,000 (2017: £nil) were waived by subsidiary undertakings prior to those companies being liquidated.

6. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	2018 £000	2017 £000
Deferred tax liabilities	(4,760)	(4,849)
Deferred tax assets	986	1,000
	(3,774)	(3,849)

Deferred tax — movement for the year

	Excess capital allowances £000	Other timing differences £000	Total £000
At 1 April 2016	(5,151)	630	(4,521)
Current year credit	37	310	347
Credit to equity	—	60	60
Effect of change in tax rate	265	—	265
At 1 April 2017	(4,849)	1,000	(3,849)
Current year credit	49	73	122
Charge to equity	—	(87)	(87)
Effect of change in tax rate	40	—	40
At 31 March 2018	(4,760)	986	(3,774)

The rate of corporation tax reduced from 20 per cent to 19 per cent with effect from 1 April 2017. A reduction in the corporation tax rate to 17 per cent from 1 April 2020 was substantially enacted on 6 September 2016.

7. Contingent liabilities

The Company has provided an unlimited multilateral guarantee to secure any bank overdrafts and loans of all other Group companies. At 31 March 2018 these amounted to £nil (2017: £nil).

Addresses and advisers

Registered office and headquarters

Severfield plc

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

Operational businesses

Severfield (UK) Limited

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

Severfield (Products & Processing) Limited

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

JSW Severfield Structures Limited

Office No. 302, Naman Centre
3rd Floor, Plot No. C-31
Bandra Kurla Complex
Bharat Nagar, Bandra East
Mumbai 400 051
India

Advisers

Auditor

KPMG LLP

Chartered Accountants
1 Sovereign Square
Leeds, LS1 4DA

Solicitors

Ashurst LLP

Broadwalk House
5 Appold Street
London, EC2A 2HA

Public Relations

Camarco

107 Cheapside
London
EC2V 6DN

Severfield (Design & Build) Limited

Ward House
Sherburn
Malton
North Yorkshire
YO17 8PZ

Severfield Europe B.V.

Gildelaan 11 2e Verdiepin
4761 BA Zevenbergen
The Netherlands

Composite Metal Flooring Limited

Unit 3
Mamhilad Technology Park
Old Abergavenny Road
Mamhilad
Monmouthshire, NP4 0JJ

Stockbrokers

Jefferies International Limited

Vintners Place
68 Upper Thames Street
London, EC4V 3BJ

Registrars

Computershare Investor Services PLC

PO Box 82
The Pavilions, Bridgwater Road
Bristol, BS99 7NP

Severfield (NI) Limited

Fisher House
Ballinamallard
Enniskillen
Co Fermanagh
BT94 2FY

Bankers

HSBC Bank plc

Maingate
Kingsway North
Team Valley Trading Estate
Gateshead, NE11 0BE

Yorkshire Bank

(part of CYBG plc)
94 Albion Street
Leeds, LS1 6AG

Shareholder notes



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SEVERFIELD PLC

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

Tel: (01845) 577896

Fax: (01845) 577411

www.severfield.com