PRESS RELEASE

Severfield

15 June 2016

Results for the year ended 31 March 2016

Return to revenue growth – excellent profit and cash performance

Severfield plc, the market leading structural steel group, is pleased to announce its results for the 12 month period ended 31 March 2016.

Highlights

- Revenue up 19 per cent to £239.4m (2015: £201.5m)
- Underlying* profit before tax up 59 per cent to £13.2m (2015: £8.3m)
- Improvement in UK underlying* operating margin (before JVs and associates) year-on-year to 5.7 per cent (2015: 4.5 per cent), in line with stated targets
- Continued focus on tendering and operational processes, reflected in increased margin
- Over 120 projects undertaken during the year in key market sectors:
  - Core construction: office developments, stadia, warehouses and distribution centres; and
  - Core infrastructure: transport
- Share of losses from Indian joint venture of £0.3m (2015: £0.2m) reflecting stability of the business
- Excellent cash performance with operating cash conversion of 145 per cent (2015: 107 per cent), resulting in year-end net funds of £18.7m (2015: £6.4m)
- UK order book of £270m at 1 June 2016 (1 November 2015: £185m), its highest position for over six years
- India order book of £33m at 1 June 2016 (1 November 2015: £35m)
- Successful completion of a 50 per cent investment in Composite Metal Flooring Limited ('CMF'), a manufacturer of metal decking
- Proposed final dividend of 1.0p per share, resulting in annual dividend of 1.5p per share, reflecting current performance and confidence in future prospects

£m	12 months to 31 March 2016	12 months to 31 March 2015
Revenue	239.4	201.5
Underlying* operating profit (before JVs and associates)	13.7	9.0
Underlying* operating margin (before JVs and associates)	5.7%	4.5%
Operating profit (before JVs and associates)	10.1	0.5
Underlying* profit before tax	13.2	8.3
Profit after tax	8.6	0.1
Underlying* basic earnings per share	3.67p	2.31p
Basic earnings per share	2.89p	0.05p

* Underlying results are stated before non-underlying items of £3.5m (2015: £8.5m):
- Amortisation of acquired intangible assets – £2.6m (2015: £2.6m)
- Fair value of derivative financial instruments – loss of £0.9m (2015: profit of £0.1m)
- Contract remedial costs – £nil (2015: £6.0m)
- The associated tax impact of the above, together with the impact of a reduction in future corporation tax rates on deferred tax liabilities – £1.2m (2015: £1.8m)

Ian Lawson, chief executive officer commented:

Severfield has had a strong year with excellent revenue and profit growth and a good cash performance.

Our increased profitability is as a result of our focus on operational improvements and efficiencies over the last three years and with the strength of the platform from which the Group now operates and the opportunity for further margin improvement, our target is now to double our underlying profit before tax over the next four years.

With the current UK order book at its highest level for over six years and a continued stable market environment, the Group is well placed to continue delivering against its near-term financial targets whilst continuing to build for the longer term. Overall the outlook remains encouragingly positive.

For further information, please contact:

Severfield plc	Ian Lawson	01845 577 896
	Chief executive officer	
	Alan Dunsmore	01845 577 896
	Group finance director	
Jefferies International Limited	Simon Hardy	020 7029 8000
	Harry Nicholas	020 7029 8000
Bell Pottinger	Nick Lambert	020 3772 2558
	Dan de Belder	020 3772 2561
	Zara de Belder	020 3772 2512

OPERATING REVIEW

Group overview

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

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

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

UK review

At the time of the rights issue in 2013, an underlying operating margin target of 5 to 6 per cent was set for the current financial year. It is pleasing that this has been achieved with a margin of 5.7 per cent delivered in the year (2015: 4.5 per cent). In conjunction with this improvement, the Group has returned to revenue growth, with £239.4m being achieved in the year, an increase of 19 per cent on the prior year level of £201.5m. As a result of this revenue and margin improvement, underlying operating profit (before the share of results of JVs and associates) has improved by 52 per cent to £13.7m (2015: £9.0m).

This performance provides further evidence of the improvements made to the business over the past three years. This includes a simpler organisational structure focused around three main business units, greater strength and depth in the management structure, and an operational improvement programme which has focused on three broad areas – risk assessment, operational processes and contract management processes. This programme has resulted in improved tender disciplines and risk assessment, and better management throughout a project's life by improving operational efficiency and our execution of contracts. Whilst the initial target of a 5 to 6 per cent underlying operating margin has now been achieved, the opportunity for further progress in the business can also be seen with greater clarity.

Underpinning this continuing improvement is an increasing focus on the training and development of our people. Our senior management team has now been stable for over 18 months and we are continuing to strengthen the individual functions across the organisation. More effort, time and cash is also being invested in staff training and development, and leadership development for both existing and future leaders. We have established a relationship with Nottingham Trent University which encompasses work placements, graduate opportunities and collaboration on research and development projects. We believe that all this is an essential part of building the strength and depth required across the organisation to deliver both on our existing improvement initiatives and to support the future strategic development of the business.

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

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

In November, we invested in a 50 per cent share of Composite Metal Flooring Limited ('CMF'). CMF is a manufacturer of metal decking which is used extensively in construction projects. CMF is an existing supplier to the Group and, following this investment, all of the Group's metal decking requirements will come from CMF. This investment is another step in the implementation of the Group's strategy and will strengthen the Group's supply chain as well as enabling it to extract greater value from its existing activities. CMF also provides the Group with a direct interest in cold rolled steel production, which has an additional range of uses in the construction sector which we will be looking to develop.

Order book and market conditions

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

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

a) the growth in larger projects, with three over £20m in value
b) the development of the commercial office sector outside London, which is encouraging
c) the Group's strength in stadia development including the new roof for Wimbledon No. 1 Court and the new stadium for Tottenham Hotspur FC
d) the continuing strength of the retail and distribution sectors
e) the re-emergence of the Republic of Ireland as an active and attractive market
f) the development of the transport infrastructure sector

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

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

Projects

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

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

India

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

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

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

Business investment

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

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

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

Safety

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

Strategy and profit target

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

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

With the strength of the platform from which the Group now operates and the opportunity for further margin improvement, our target is now to double our underlying profit before tax over the next four years. The business has a much stronger base than three years ago; it has strengthened its capability in infrastructure and bridges, it has new capability in cold rolled steel through its investment in CMF, and the market is expected to continue to grow. These factors, coupled with the continued implementation of the strategy in areas such as further developing new markets (both sectoral and geographic), and continued operational improvement, give us confidence that this profit target is achievable. As the business continues to develop its strength and depth across a number of market sectors, it will become increasingly less dependent on any one sector and give us a broader platform for growing revenue and earnings. Alongside this, maintaining stability in India whilst continuing the conversion of the market from concrete to steel will continue to build long-term value in our Indian joint venture.

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

Summary and outlook

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

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

Overall the outlook remains encouragingly positive.

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

Ian Lawson
Chief executive officer
15 June 2016

FINANCIAL REVIEW

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

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

Trading performance

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

Underlying operating profit (before results of JVs and associates) of £13.7m (2015: £9.0m) represents an increase of £4.7m since the prior year, reflecting an increased underlying operating margin of 5.7 per cent (2015: 4.5 per cent). This margin is in line with our previously stated 5 to 6 per cent target for the 2016 financial year and reflects the ongoing benefits of the Group's operational improvement programme which has improved all aspects of our tendering, execution and contract management processes.

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

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

Share of results of JVs and associates

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

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

Non-underlying items

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

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

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

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

The contract remedial costs in the prior year related to the programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. They were treated as non-underlying costs in accordance with the Group's stated policy. This work is now substantially complete and the actual costs of the programme are consistent with the non-underlying charge of £6.0m which was recorded in 2015. Notwithstanding this, discussions remain ongoing between the Group and the other parties involved to determine where the ultimate liability for the programme costs should reside. Similar to 2015, no account has been taken of possible future cost recoveries from third parties, as these cannot be recognised under IFRS.

Finance costs

Net finance costs in the year were £0.2m (2015: £0.4m). The reduction since 2015 is primarily due to the Group being in a net funds position for almost all of the year. The 2016 charge of £0.2m primarily represents non-utilisation fees for the Group's revolving credit facility and the amortisation of capitalised transaction costs associated with the refinancing in 2014.

Taxation

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

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

Earnings per share

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

Diluted earnings per share, including the effect of the Group's performance share plan, was 2.87p. In 2015, there was no difference between basic and diluted earnings per share.

Dividend and capital structure

The Group has a progressive dividend policy which has been further refined by the board during 2016. Funding flexibility will continue to be maintained to ensure there are sufficient cash resources to fund the Group's requirements. In this context, the board has established the following clear priorities for the use of cash:

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

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

Shareholders' funds

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

Goodwill and intangible assets

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

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

Capital investment

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

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

As previously stated, the Group's ongoing normal levels of capital expenditure are expected to be in the region of £5.0m per annum.

Joint ventures

No further equity was invested in the Indian joint venture during the year. With the joint venture continuing to operate at close to break-even levels, the need for further equity injections to finance trading losses is likely to be much reduced. The joint venture business has started to repay its term debt with £2.0m repaid during the year. A further £3.5m is scheduled to be repaid in the 2016/17 financial year and the overall debt/ equity structure of the business is being kept under close review.

On 16 November 2015, the Group completed its investment in a 50 per cent share of CMF. The total consideration for the investment is £7.0m, which consists of an initial payment of £4.0m (plus transaction costs of £0.1m), an additional payment of £0.4m (made in early 2016/17) following agreement of the final working capital position and a further £2.5m which is payable over the next five years subject to certain conditions.

Pensions

The Group has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £14.6m (2015: £16.5m). The decrease in the deficit is mainly as a result of the increase in the assumption for corporate bond yields (used to set the discount rate) and ongoing deficit contributions of £1m made by the Group during the year. This has been partially offset by lower than expected performance by the scheme's assets.

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

Return on capital employed

The Group adopts return on capital employed ('RoCE') as a KPI to help ensure that its strategy and associated investment decisions recognise the underlying cost of capital of the business. The Group's RoCE is defined as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2016, RoCE was 9.7 per cent (2015: 6.1 per cent) demonstrating good progression towards the Group's target of 10 per cent over the whole economic cycle.

Cash flow

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

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

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

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

In 2016, our cash generation KPI shows a conversion of 145 per cent (2015: 107 per cent) of underlying operating profit into operating cash. This continues the Group's excellent recent record of converting profits into cash.

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

Bank facilities committed until 2019

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

Treasury

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

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

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

Going concern

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

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

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

Viability statement

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

This assessment also considered:

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

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

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

Alan Dunsmore
Group finance director
15 June 2016

Consolidated income statement

For the year ended 31 March 2016

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

All of the above activities relate to continuing operations.

Further details of other items are disclosed in note 3.

Consolidated statement of comprehensive income

For the year ended 31 March 2016

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

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

Consolidated balance sheet

As at 31 March 2016

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

Consolidated statement of changes in equity

For the year ended 31 March 2016

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

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

Consolidated cash flow statement

For the year ended 31 March 2016

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

1) **Basis of preparation**

The preliminary announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the 2016 financial statements which have been prepared under International Financial Reporting Standards ('IFRS') as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies applied in preparing the preliminary announcement are consistent with those used in preparing the statutory financial statements for the year ended 31 March 2015.

The preliminary announcement does not constitute the statutory financial statements of the Group within the meaning of Section 434 of the Companies Act 2006. The statutory financial statements for the year ended 31 March 2015 have been filed with the Registrar of Companies. The auditor has reported on those financial statements and on the statutory financial statements for the year ended 31 March 2016, which will be filed with the Registrar of Companies following the annual general meeting. Both the audit reports were unqualified, did not draw attention to any matters by way of emphasis, without qualifying their report, and did not contain any statements under Section 498(2) or (3) of the Companies Act 2006.

The preliminary announcement has been agreed with the Company's auditor for release.

2) **Segment reporting**

Following the adoption of IFRS 8, the Group has identified its operating segments with reference to the information regularly reviewed by the executive committee ((the chief operating decision maker) ('CODM')) to assess performance and allocate resources. On this basis, the CODM has identified one operating segment (construction contracts) which in turn is the only reportable segment of the Group. The constituent operating segments have been aggregated as they have businesses with similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics. Given that only one operating and reporting segment exists, the remaining disclosure requirements of IFRS 8 are provided within the consolidated income statement and balance sheet.

Revenue, which relates wholly to construction contracts and related assets in both years, originated from the United Kingdom.

3) **Other items**

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

Other items have been separately identified to provide a better indication of the Group's underlying business performance. They are not considered to be 'business as usual' items and have a varying impact on different businesses and reporting years. They have been separately identified as a result of their magnitude, incidence or unpredictable nature. These items are presented as a separate column within their consolidated income statement category. Their separate identification results in a calculation of an underlying profit measure in the same way as it is presented and reviewed by management.

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

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

The contract remedial costs in the prior year related to the programme of bolt replacement works at the Leadenhall building, a contract that was completed in 2013. They were treated as non-underlying costs in accordance with the Group's stated policy. This work is now substantially complete and the actual costs of the programme are consistent with the non-underlying charge of £6.0m which was recorded in 2015. Notwithstanding this, discussions remain ongoing between the Group and the other parties involved to determine where the ultimate liability for the programme costs should reside. Similar to 2015, no account has been taken of possible future cost recoveries from third parties, as these cannot be recognised under IFRS.

4) Taxation

The taxation (charge)/credit comprises:

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

5) Dividends

	2016 £000	2015 £000
2015 final – 0.5p per share	**(1,487)**	-
2016 interim – 0.5p per share	**(1,487)**	-
	(2,974)	-

The directors are recommending a final dividend in respect of the financial year ended 31 March 2016 of 1.0p per share which will amount to an estimated dividend payment of £3.0m. If approved by the shareholders at the annual general meeting on 6 September 2016, this dividend will be paid on 16 September 2016 to shareholders who are on the register of members at 19 August 2016. This dividend is not reflected in the balance sheet as at 31 March 2016 as it is subject to shareholder approval.

6) **Earnings per share**

Earnings per share is calculated as follows:

	2016 £000	2015 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	**8,600**	144
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	**10,931**	6,862
Number of shares	**Number**	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	**297,503,587**	297,503,587
Effect of dilutive potential ordinary shares	**1,715,818**	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**299,219,405**	297,503,587

Basic earnings per share	**2.89p**	0.05p
Underlying basic earnings per share	**3.67p**	2.31p
Diluted earnings per share	**2.87p**	0.05p
Underlying diluted earnings per share	**3.65p**	2.31p

7) **Net cash flow from operating activities**

	2016 £000	2015 £000
Operating profit from continuing operations	**9,888**	259
Adjustments:		
Depreciation of property, plant and equipment	**3,693**	3,622
Depreciation of investment property	**-**	10
Gain on disposal of property, plant and equipment	**(137)**	(46)
Amortisation of intangible assets	**2,758**	2,757
Movements in pension scheme	**(573)**	(528)
Share of results of JVs and associates	**230**	213
Share-based payments	**1,050**	480
Movement in valuation of derivatives	**948**	(118)
Operating cash flows before movements in working capital	**17,857**	6,649
(Increase)/decrease in inventories	**(527)**	1,075
Decrease/(increase) in receivables	**13,725**	(4,206)
(Decrease)/increase in payables	**(6,221)**	7,893
Cash generated from operations	**24,834**	11,411
Tax paid	**(946)**	(965)
Net cash flow from operating activities	**23,888**	10,446

8) **Net funds**

The Group's net funds are as follows.

	2016 £000	2015 £000
Cash and cash equivalents	**19,033**	6,884
Unamortised debt arrangement fees	**210**	273
Financial liabilities - finance leases	**(589)**	(794)
Net funds	**18,654**	6,363

Information for shareholders

- The shares will be marked ex-dividend on 18 August 2016.
- The final dividend will be paid on 16 September 2016 to shareholders on the register at the close of business on 19 August 2016. Dividend warrants/vouchers will be posted on 14 September 2016.
- The 2016 annual report and financial statements together with the notice of the annual general meeting will be posted to shareholders in July 2016.
- The annual general meeting will be held on 6 September 2016 at Aldwark Manor Hotel, Aldwark, York, YO61 1UF.

Principal risks and uncertainties

The board has carried out a robust assessment of the principal risks and uncertainties which have the potential to impact the Group's profitability and ability to achieve its strategic objectives. This list is not intended to be exhaustive. Additional risks and uncertainties not presently known to management or deemed to be less significant at the date of this report may also have the potential to have an adverse effect on the Group. Risk management processes are put in place to assess, manage and control these on an ongoing basis. Our principal risks are set out below:

1. Tendering and project execution
Description Failure to accurately estimate and evaluate the contract risks, costs to complete, contract duration and the impact of price increases could result in a contract being mispriced. As contracts progress, there are likely to be changes to the work packages being undertaken which could result in the Group not being appropriately reimbursed for the cost of these variations as a result of poor commercial controls, disagreements or disputes. Execution failure on a high-profile contract could result in reputational damage. **Impact** Poor contract tendering and execution could result in adverse business performance, price and margin pressure and missed growth targets. The Group may need to resort to legal action to resolve disputes, which can be costly and may damage client relationships.
Mitigation ▪ Continued strengthening of senior management team to improve process and discipline around contract risk assessment, engagement and execution. ▪ Estimating processes are in place with approvals by appropriate levels of management. ▪ Tender settlement processes are in place to give senior management regular visibility of major tenders. ▪ Work performed under minimum standard terms (to mitigate onerous contract terms) where possible. ▪ Established system of monthly reviews to measure and report contract progress and estimated outturns, including contract variations. ▪ Use of Group authorisation policy to ensure appropriate contract tendering and acceptance.
2. 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. Lower than anticipated demand could result in increased competition, tighter margins and the transfer of commercial, technical and financial risk down the supply chain, through more demanding contract terms and longer payment cycles. **Impact** A significant fall in construction activity could adversely impact revenues, profits, ability to recover overheads and cash generation.
Mitigation ▪ Regular reviews of market trends performed (as part of the Group's annual strategic planning process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively. ▪ Regular monitoring and reporting of financial performance, orders secured, hot prospects and pipeline of opportunities. ▪ Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients. ▪ Close engagement with both customers and suppliers and monitoring of payment cycles.

- Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts.
- Continuing use of credit insurance to minimise impact of customer failure.
- Strong balance sheet (the Group is cash-positive) supports the business through fluctuations in the economic conditions for the sector.

3. Health and safety

Description

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

Impact

A serious health and safety incident could lead to the potential for legal proceedings, regulatory intervention, project delays, potential loss of reputation and ultimately exclusion from future business.

Mitigation

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

4. 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 disruption to the Group's operations.

Impact

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

Mitigation

- Initiatives are in place to select supply chain partners that match our expectations in terms of quality, sustainability and commitment to client service.
- Strong relationships maintained with key suppliers including a programme of regular meetings and reviews.
- No single sourcing arrangements in place.
- Contingency plans developed to address supplier and subcontractor failure.
- Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements.
- Monthly review process to facilitate early warning of issues and subsequent mitigation strategies.
- Implementation of new purchase contract guidelines.

5. 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 manage effectively 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.
- Two members of the Group's board of directors are members of the joint venture board.
- Strong governance in place at the joint venture.
- Regular formal and informal meetings held with both joint venture management and joint venture partners.
- Contract risk assessment, engagement and execution process now embedded in the joint venture.
- Overhead reduction and operational improvement programmes are ongoing.

6. Information technology resilience

Description

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

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

Impact

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

Mitigation

- IT is the responsibility of a central function which manages the majority of the systems across the Group. Other IT systems are managed locally by experienced IT personnel.
- Significant investments in IT systems are subject to board approval.
- Group IT committee ensures focused strategic development and resolution of issues impacting the Group's technology environment.
- Robust business continuity plans are in place.
- Data protection and information security policies are in place across the Group, including anti-virus software, off-site and on-site back-ups, storage area networks, software maintenance agreements and virtualisation of the IT environment.
- Cyber-crimes and associated IT risks are assessed on a continual basis.
- ISO 27001 certification project is ongoing to further improve the Group's information security environment.

7. People

Description

In the current improving economic environment, it can become increasingly difficult to recruit capable people and retain key employees, especially those targeted by competitors. The ability to identify, attract, develop and retain talent is crucial to satisfy the current and future needs of the business.

Impact

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

Mitigation

- Remuneration policy is regularly reviewed (and benchmarked where possible) to ensure that it is competitive and strikes the appropriate balance between short and long-term rewards and incentives.
- Skills gaps are continually identified and actions put in place to bridge these by training, development or external recruitment.
- In 2015/16 we conducted a Group-wide review of emerging talent to ensure consistency and visibility of talent, succession planning and career opportunity.
- Annual appraisal process is now in place (providing 360 degree feedback on performance for certain employees).
- Leadership and management development plans are in place.
- Graduate, trainee and apprenticeship schemes are in place to safeguard an inflow of new talent.

8. 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.