Severfield-Rowen Plc

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2011

STEEL FUTURES

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

Group strengths

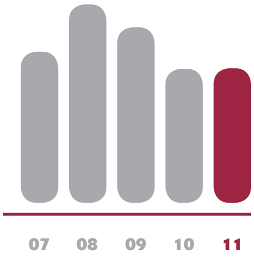
- Operational performance and customer service
- Multi-sector flexibility
- Early project design enhancement, programming and costing
- Product and service range
- UK and overseas manufacturing and network
- Factory and site efficiencies
- People and skills
- Financial strength
- Scale and cost base
- Health, safety and sustainability

For more information visit: **www.sfrplc.com**

Financial Highlights

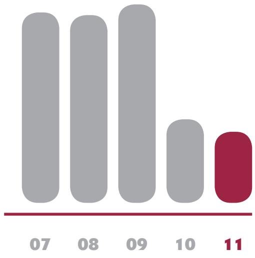
Revenue

£267.8m



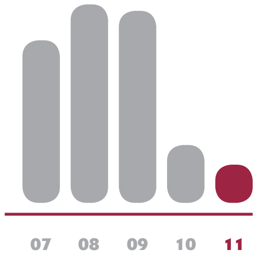
Underlying* Operating Margin

5.3%



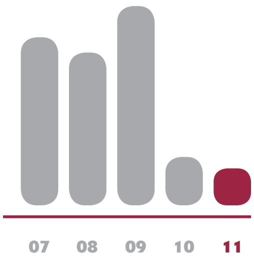
Underlying* Profit Before Tax

£10.1m



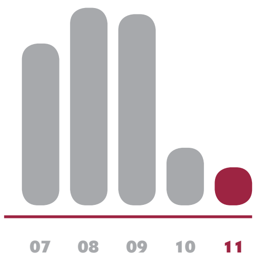
Retained Profit After Tax

£5.8m



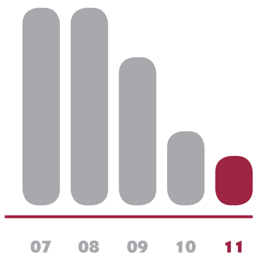
Underlying* Basic Earnings Per Share

8.05p



Dividend Per Share

5.0p



- Revenue steady at £267.8m (2010: £266.7m)
- Underlying Group operating margin before results of associates at 5.3% (2010: 6.2%)
- Underlying Group profit before tax of £10.1m (2010: £15.3m)
- Share of losses from Indian joint venture of £2.5m (2010: £0.4m)
- Profit after tax (reflecting non-underlying items) of £5.8m (2010: £7.6m)
- Basic earnings per share of 6.52p (2010: 8.58p)
- Recommended final dividend per share of 3.5p giving total dividend of 5.0p (2010: 7.5p)
- Year end net debt of £31.3m (2010: £15.0m)
- March 2012 UK order book value £221m
- March 2012 JSSL (India) order book value £43m

* Underlying is before:
- the amortisation of acquired intangible assets – £2.7m (2010: £2.7m)
- legal costs and provision movements – £0.6m charge (2010: £2.0m gain)
- share of pre-operating losses of Indian joint venture – £nil (2010: £1.4m)
- impairment in valuation of investment property – £nil (2010: £2.1m)
- the associated tax impact of the above and the effect of future corporation tax rate reductions – £2.0m gain (2010: £0.7m gain).

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PROJECT
The Shard
LOCATION
London Bridge

OUR BUSINESS

CONTENTS

COMMERCIAL OFFICES SECTOR

PROJECT
Amex House

LOCATION
Brighton

PROJECT
Co-operative Headquarters

LOCATION
Manchester

PROJECT
London Bridge Place

LOCATION
London

PROJECT
One New Change

LOCATION
London

What We Do

The Group proactively seeks to continue its industry leading position in the areas of health, safety and sustainability. The Group's "Steel Futures" strategy promotes Sustainable Future, Safe Future and Zero Carbon Future.

The Group provides a full in-house service offering streamlined design, fabrication and erection capability with multi-sector flexibility that is unparalleled in the industry.

DESIGN

The design process offers clients alternative concepts and solutions. By working closely with the 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 analysis modelling and design at their disposal, we are able to offer Clients 'Value Engineering' for the most effective and efficient solutions. Advice on material choices, fabrication, fire protection, surface treatment and erection techniques can often lead to significant project savings.

FABRICATION

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 erection.

ERECTION

The Group's in-house erection companies (Steelcraft and Fisher Engineering) provide services for all of the other Severfield–Rowen Group companies. Whilst only working within the Group, they are the largest structural steel erection businesses in the UK, directly employing staff and owning plant.

They are industry leaders in steel erection and construction methodology.

COMPETITIVE ADVANTAGE

The Group's competitive advantages derive from its scale, client focus, flexibility, experience, cost base, productivity, supply chain strengths and integrated approach from design to erection.

Our Operations

The Group's state-of-the-art facilities provide clients with unrivalled services and value in the execution of their projects.

MARKET SECTORS

POWER & ENERGY

Power Stations in the UK, Ireland and overseas have always been an important element for the Group where its capability to deal with special construction and engineering requirements leads to its unrivalled success in this sector. Our experience and professionalism in delivering such projects enables the Group to continue in its pivotal role in supply to this growing sector.

COMMERCIAL OFFICES

Performance benefits from Fabsec and Firebeam, together with other initiatives, have underpinned the Group's success in this sector. Example illustrated is Cannon Place, London.

DISTRIBUTION & INDUSTRIAL

The Group's competitive strengths, including design capability, supply chain co-ordination and fabrication/erection speeds, are key to its success in this sector. Group contracts include projects for Tesco, Asda and Morrisons. The project illustrated is the Co-operative Distribution Facility, Andover.

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TRANSPORT, BRIDGES & CAR PARKS

The Group has a strong reputation for successful delivery of major transportation related projects both in the UK and overseas, including airports, and has extensive experience for all types of bridgework. Group successes include Heathrow's Terminal 5, Gatwick Pier 6 passenger bridge, the multi award winning Gateshead Millennium Bridge, Stratford City Footbridge and the above, Terminal 2A, Heathrow.

STADIUMS & LEISURE

The Group has an unrivalled record in the design, engineering and building of many of the UK's best known stadiums and has provided timely and cost-effective solutions for long spanning, architecturally innovative structures. Group successes include Arsenal's Emirates Stadium, Wimbledon Centre Court, ExCeL Exhibition Centre, London and the 2012 Olympic Stadium, Stratford.

CITY CENTRE & RETAIL

Project management and supply chain linkage are vital aspects in the provision of successful execution in these challenging city centre and out of town projects. Example illustrated is Westfield Shopping Centre, Stratford.

HEALTH

Many hospitals are specified with structural steel frames. Span length, enhanced flexibility, adaptability and speed of construction are key factors conferring advantages to the Group in this sector. Example illustrated is Queen Elizabeth Hospital, Birmingham.

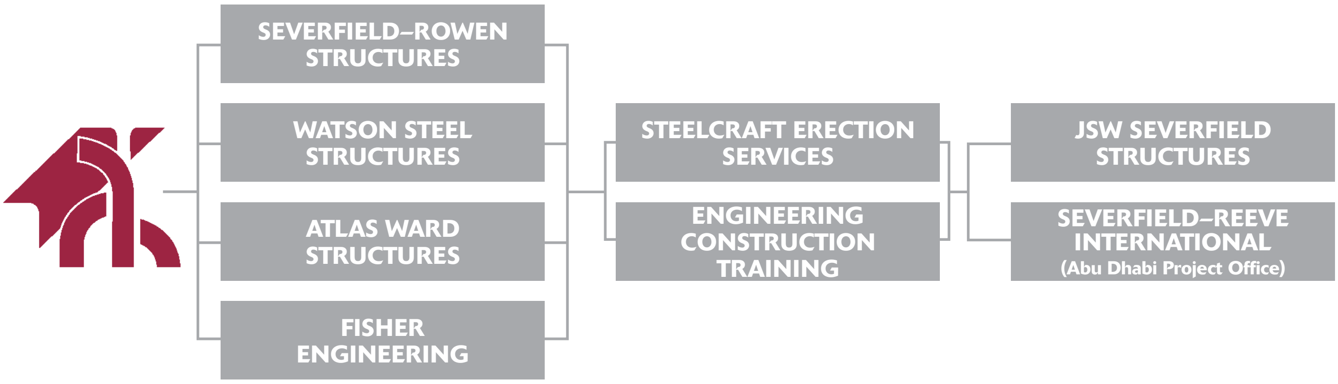
EDUCATION

Group companies have extensive experience in the provision of structural steelwork for the education sector. The Company has undertaken numerous school and further education projects. Leeds Metropolitan University was awarded a commendation for its structural steel design.

Group at a Glance

The combined resources of our Group of companies have the design skills, engineering skills and experience to handle complex projects over a diverse range of market sectors.

We can facilitate the production of a wide range of steelwork packages, from projects requiring high added value engineering content to basic structural work.



SEVERFIELD–ROWEN STRUCTURES LTD

Located at Dalton in North Yorkshire, this is the largest of the operating Companies and is the hub of much of the Group's activity. On its 55 acre site it has ten production lines where the manufacturing process is undertaken in a controlled environment.

The Company's Pre-Construction Services Division is based in South Normanton, Derbyshire. Steelcraft, the Group's in-house erection business, is also based at Dalton.

Heron Tower, London

WATSON STEEL STRUCTURES LTD

This world famous business, founded in 1933, is one of the larger UK structural steelwork companies in its own right. It is internationally respected, with a reputation for having specialist skills in relation to the design and engineering of high added value steelwork.

ArcelorMittal Orbit, Stratford

ATLAS WARD STRUCTURES LTD

Located in Sherburn, near Scarborough, Atlas Ward is the leading design and build steelwork contractor for distribution warehouses in the UK. Atlas Ward designs, fabricates and erects structural steelwork principally for the warehouse, industrial and distribution sectors and has a business, skill base and client profile which is complementary to the rest of the Group.

The Light Steel Division, specialising in stairs and other ancillary products, is also based at Sherburn.

Distribution Centre, Dunfermline

FISHER ENGINEERING LTD

Located in Northern Ireland, Fisher Engineering Ltd is recognised to be one of Europe's leading constructional steel fabricators. The company has a highly skilled workforce and is equipped with the latest state-of-the-art manufacturing processes.

The Company has its own in-house erection business.

Derby Civic Centre, Derbyshire

JSW SEVERFIELD STRUCTURES LTD

Located adjacent to JSW Steel's Plant at Vidyanagar, in the District of Bellary, Karnataka, India, the plant consists of two fabrication lines and a plate line. Plant investment has been significant, with many of Severfield–Rowen's innovative features being incorporated into the Joint Venture. The Company is involved in the design, fabrication and erection of structural steelwork to principally service the Indian markets.

Prestige Shantiniketan, Bangalore

JSW Severfield Structures Ltd

Severfield–Rowen's Joint Venture and operations in India are of significant importance in achieving our strategic growth ambitions.

INDIA

2011 saw the first full year of our operations in India with many prestigious projects won, including:

- The Air Traffic Control Tower at Mumbai Airport;
- Two power stations for Siemens Ltd;
- The Jupiter Mills commercial complex in Mumbai for Indiabulls; and
- The Shantiniketan commercial complex for Prestige Estates in Bangalore.

'Value Proposition'

JSW Severfield Structures Ltd's 'Value Proposition' to the India market provides clients with many advantages, namely:

- A design and build service promoting and utilising the best advantages of steel for clients through enhanced steel design across a wide range of construction sectors.
- Precision manufacturing providing accuracy, consistency and reliability to clients for their construction projects.
- Comprehensive design, fabrication and erection methodology delivers design concepts to project reality thus providing maximum revenues and lower overall project costs to clients through short programme times, and lower overall financing costs.

India - The Future

The Indian market is growing and is enjoying considerable infrastructure/construction spend. Steel is already used significantly in the power and infrastructure sectors.

The use of steel in construction is anticipated to become more widespread in the coming years as its overall value benefits are realised.

Severfield-Rowen remains optimistic that the Joint Venture will continue to grow both through market growth and through market penetration as a result of the value it is offering to clients.

Overview

- 35,000 tonnes capacity
- Two fabrication lines
- INDSEC line (sections from plate)
- 427 employees
- Second JV for floor metal decking line in Bellary

State-of-the-Art Plant

The plant has been designed to optimise product range, quality and productivity, as befitting the demands of the construction industry in India.

Incorporating state-of-the-art technology and processing equipment, the plant is managed and operated by highly qualified, experienced and dedicated people.

Bespoke plated products FABSEC and INDSEC are manufactured on site at Bellary, Karnataka offering clients a range of benefits.

The plant is based in Bellary and currently utilises 26,000m^2 of workspace and 52,000m^2 of logistics and storage area.

Locations

The head office, with sales operatives and project managers, is based in Mumbai.

There are also sales and project representatives across India to service the needs of clients.

- Bellary - production plant
- Mumbai - head office
- Bangalore - sales representation and drawing/ design office
- Delhi - sales representation

JSW Severfield Structures Ltd continued

PROJECT GALLERY

PROJECT
Prestige Shantiniketan

CLIENT
Prestige Estates

LOCATION
Bangalore

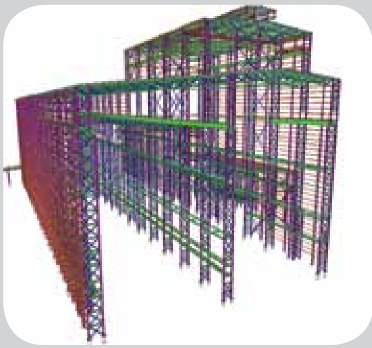
SECTOR
Commercial

PROJECT
Indiabulls - Jupiter Mills

CLIENT
Indiabulls

LOCATION
Mumbai

SECTOR
Commercial

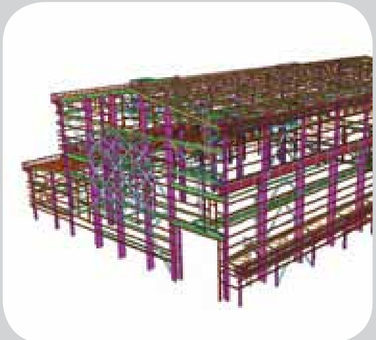


PROJECT
CRM 2

CLIENT
JSW

LOCATION
Vidyanagar

SECTOR
Industrial



PROJECT
382 MW Gas Power Station

CLIENT
Siemens Ltd

LOCATION
Surat, Gujarat

SECTOR
Power

PROJECT
Mumbai Airport - ATC

CLIENT
L&T/GVK/MIAL

LOCATION
Mumbai

SECTOR
Airports

Health & Safety

JSW Severfield Structures Ltd and its employees are emerging as leaders in Health and Safety.

The Company recently received full accreditation to OHSAS 18001 and through external verification was found to have rigorous standards, policies and procedures in place. The Company has a fully dedicated H&S resource undertaking robust audits and training to promote an excellent health and safety culture.

The executive team also carry out periodic leadership assessments along with the joint venture partners.

The Company's health and safety performance has been good and the management remains committed to continuously strive to improve standards.

Year at a Glance

Despite difficult trading conditions during 2011, the Group illustrates some of its significant highlights through the year.

QUARTER 1

JANUARY

JANUARY

Roll out of Safety Leadership Teams "SLTs" across all Group companies

SLT's progress is reported and reviewed by the Group Safety Leadership Team, which is chaired by the CEO. This methodology is now firmly embedded across the Group.

QUARTER 2

APRIL

APRIL

Leeds Arena contract award for Fisher Engineering

Award of contract for the construction of a state-of-the-art 13,500 seater concert and entertainment venue in Leeds. It will be operated by SMG Europe, the largest operator of sports and entertainment venues.

QUARTER 3

JULY

JULY

Awards

The Group received Structural Steel Design Awards for Cannon Place, London and the American Express Community Stadium, Brighton.

Both St Botolphs, London and ExCeL Phase 2, London received commendations.

QUARTER 4

OCTOBER

OCTOBER

Key Indian project milestone for JSW Severfield

JSW Severfield completed structural steel construction on their first commercial office project in India, the Prestige Shantiniketan, Bangalore.

FEBRUARY

FEBRUARY

BMW contract award for Atlas Ward

Award of contract with BMW for expansion of their Cowley, Oxfordshire plant to service demand for the next generation of Minis to be built at the site from 2013.

MARCH

MARCH

Group achievement of BES 6001 - Responsible Sourcing of Construction Products (BREEAM)

Severfield-Rowen are the only UK structural steelwork supplier to have achieved this certification.

MAY

MAY

Watson Steel Structures commences work on London Cable Car contract

The London Cable Car is a 1km long gondola link to be operated by Transport for London, opening in time for the 2012 London Olympics. Watson's were uniquely placed to provide the technical heavy steel requirements of this complex scheme.

JUNE

JUNE

Investor Open Day, London

The Group held a well attended Open Day for key investors, which involved a tour of the 2012 Olympic facilities and the Westfield Shopping Centre, Stratford.

AUGUST

AUGUST

Award of the Leadenhall Building contract

122 Leadenhall Street (the "Cheesegrater") is an iconic 225 metre British Land development designed by Richard Rogers, scheduled for completion in 2014.

SEPTEMBER

SEPTEMBER

Receipt of ISO14001 and ISO18001 certifications at JSW Severfield Structures, India

These are the first such certifications for a steelwork contractor in India and are testament to the rapid achievement of operational objectives and health and safety focus of the business.

NOVEMBER

NOVEMBER

Successful re-financing

The Group renewed its banking facilities and entered in to a new five year £50m revolving credit facility with RBS and Yorkshire Bank, a member of the National Australia Bank.

DECEMBER

DECEMBER

Award of Arla dairy contract for Severfield-Rowen Structures

This state-of-the-art dairy facility in Aylesbury, Buckinghamshire will be the first zero carbon milk production facility in the world.

Chairman's Statement

JOHN DODDS, CHAIRMAN

Against the backdrop of a continued challenging UK trading environment I am very pleased with the Company's results for the year and with its progress and direction.

Overview

The year to 31 December 2011 was my first full year as a Director with Severfield–Rowen and included my appointment to the role of Chairman in September 2011.

Against the backdrop of a continued challenging UK trading environment I am very pleased with the Company's results for the year and with its progress and direction. Our UK companies are market leaders in their respective fields and they work vigorously, individually and collectively, to sustain the Group's key competitive advantages.

The Group's view is that the UK market conditions over the coming years will remain lacklustre contrasting markedly with the increasing and exciting prospects for our joint venture company in India.

Results

The Group has made an underlying operating profit of £11.7m (2010: £16.2m) on revenue of £267.8m (2010: £266.7m). Group profit after tax is £5.8m (2010: £7.6m) with basic earnings per share of 6.52p (2010: 8.58p), both reflecting the impact of non-underlying items.

Dividend

Our UK markets remain challenging and consequently the Group continues to adopt a cautious dividend policy. We recommend a final dividend of 3.50p, giving 5.00p for the full year (2010: 7.50p) which is 1.6 times covered by underlying earnings per share.

Board Changes

As we announced at the time of our interim results in August 2011, I was appointed Chairman on 1 September 2011 in succession to Toby Hayward, who remains a Non-Executive Director and Chairman of the Group's Audit Committee.

Earlier in February 2011 Derek Randall, Executive Director for Business Development and International including JSW Severfield Structures Ltd in India, joined the Group's Board.

Jonathan Rhodes was appointed as Company Secretary in June 2011.

We were pleased that Chris Holt, formerly Chief Executive of MJ Gleeson Financial Plc, joined us as a Non-Executive Director of the Group in November 2011, succeeding David Ridley who left his role after nine years of valued service.

In response to new and emerging opportunities, we continue to review the operation of the Board in order to provide the Group with the appropriate level of support as the shape and scale of the business changes.

Our People

Our management teams and employees continue to operate very well in challenging market conditions, which have now been in occurrence for a number of years. The expertise, experience and dedication of our people is a major asset of the business and, on behalf of the Board, I would like to thank them all for their continued support.

During a visit to JSW Severfield Structures Ltd in India in February this year, I was able to see the outcome of our joint efforts which has resulted in an effective and highly motivated team of management and employees working in a modern and safe environment.

Outlook

Notwithstanding the prevailing UK market conditions, the Board is confident that the business has the talent, ambition and resource to achieve its strategic objectives both at home and abroad and I am very optimistic for its future.

STEEL FUTURES

THE PORTFOLIO

PROJECT
Co-operative Headquarters

LOCATION
Manchester

Chief Executive's Review

TOM HAUGHEY, CHIEF EXECUTIVE OFFICER

In 2011 the UK structural steel sector endured a further year of slow demand and tough trading conditions. Against this background we were conditioned and prepared for the market and have produced resilient results and performance.

UK Overview

In 2011 the UK structural steel sector endured a further year of slow demand and tough trading conditions, which was exacerbated by diminishing confidence levels for business prospects in 2012 as a result of the economic environment.

Against this background we were conditioned and prepared for the market and have produced resilient results and performance. Encouragingly, our UK businesses entered 2012 with a strong order book of good quality contracts having now successfully executed all of our Olympic related work.

While there is little evidence of imminent UK recovery, either in the broad economy or the overall construction industry, we are confident that our capabilities, focus and relative financial strength will in the meanwhile sustain creditable results and enhance our competitive position.

Order Book

The UK order book at £221m (March 2012) is similar to the order book 12 months previously (March 2011 £226m), which contained Olympic related structures. The current order book contains a broad quality mix of London Commercial Offices, Industrial, Warehousing, Waste to Energy projects, Transport including Airports, Education and Leisure.

The prospective UK projects which we have identified as appropriate opportunities for the Group total some £510m and gives us confidence for the remainder of 2012 and beyond.

Costs

Costs within the business continued to be managed tightly and are under constant review, aided by the Group's new financial software and revised authority limits at all levels. Procurement related initiatives launched in 2011 are translating into benefits for 2012.

Prices and Margins

Prices remain generally tight in the UK market as surviving competitors seek to obtain a share of a smaller market.

The Group is pleased with its margin achievements of 5.3% against a tough backdrop and anticipates that margins will remain stable in 2012.

Projects

Some of the notable projects during 2011 include those from the predicted key sectors of Transport/Aviation, Commercial Offices, Industrial, Distribution and Power/Energy.

- Heathrow Airport
- Blackfriars Bridge, London
- Leadenhall Street, London
- Gatwick North Terminal
- Park House, London
- Ocado, Tamworth
- BMW, Oxford
- Morrisons, Bridgwater
- Marks & Spencer, Cheshire Oaks
- Co-operative HQ, Manchester
- Titanic Quarter, Belfast
- Howick Place, London
- Paris Philharmonic Hall
- Sellafield Building, SAVS
- London Bridge Place
- The Shard, London Bridge
- Southmead Hospital
- Amex House, Brighton
- Amazon, Dunfermline
- Warner Bros, Leavesden
- Asda, Birkenhead
- Birmingham Library
- Ineos, Runcorn
- Leeds Arena

Business Investment

UK investment was largely restricted to essential replacement and new financial systems. The Company continues to invest in health and safety training and initiatives, both in our factories and for our project sites.

India

In the relatively short time since the plant in India was opened in November 2010 we have now clearly established strong foundations for a successful business capable of significant growth.

The order mix in 2010 was reflective of our entry into a new market with a new offering and a steep learning curve with some complex work, which contributed to lower productivity and higher start-up losses than planned.

The Indian order book at £43m (March 2012) covers almost all of our production plans for 2012 and is strong in terms of quality and importantly product mix. The reduction in the size of the order book since November 2011 (£61m) is largely the result of a single contract cancellation which failed to conclude its project financing. The pipeline of potential orders continues to grow with some £80m of good opportunities being identified.

As a result of these positive developments, we are now in a position to consider extending our production capacity in India and will be evaluating this further during the course of the first half of this financial year.

THE PORTFOLIO

PROJECT
Heathrow Terminal 2A

LOCATION
London

Chief Executive's Review continued

Corporate Social Responsibility

In our 2010 statement we outlined our intention to proactively implement our strategy for continuous improvement through our Steel Futures programme.

In 2011 we have been pleased with the significant progress that has been made across all of our operating companies.

Some highlights of progress are:

- Roll-out of the IOSH Directing Safely to 38 Operational Directors within the Group to help underpin the desired leadership behaviours.
- The roll-out of our Behavioural Safety Strategy through an innovative theatre-based learning programme. Working with our external consultants, the Group has engaged in excess of 800 direct employees and subcontract supply chain.
- The implementation and communication of our Golden Rules to help drive improved standards across all operations.
- The implementation of focused safety leadership reviews across key aspects of our business: Design, Construction and Factory operations.
- Improved engagement of our employees through Director safety briefings, staff surveys and effective communications.
- A significant investment in improved technology and IT solutions to maximise interaction, communication and team collaboration. Through our new Workspace platform where we expect to see significant efficiencies that will help drive improvements in the work/life balance for our employees.
- The external recognition from key clients of our in-house training company Engineering Construction Training Ltd (ECTL). The development and application of new products to help reduce risk and improve safety standards within the Group.
- Positive recognition of JSW Severfield Structures Ltd in India as being proactive in setting industry-leading standards and achieving client awards and commendations for our performance.
- An intake of young apprentices to help sustain the skills necessary for the future success of the Group.
- The continued and sustained leadership position as the only steel fabrication contractor to have achieved the BREEAM standard of BES 6001 for the Responsible Sourcing of Materials.

We also have an ambitious plan for 2012 and we expect to see further momentum as we continue our journey to be recognised as industry leaders.

Summary and Outlook

Given the uncertain economic outlook, the UK market is likely to remain extremely challenging. It is likely that more companies in our sector will exit their positions as pressures remain on their volumes, costs and cash. Overall, however, we believe that it is unlikely that the balance of supply and demand in the UK will worsen.

Significant opportunities are evident for Severfield–Rowen Plc in several important sectors, including Transport/Aviation, Power/ Energy, Industrial, Commercial and others where the Group is well positioned to challenge and compete.

In India our joint venture is well established and has made progress in terms of operational outputs and market presence. In 2012 we anticipate a positive return on our investment and will seek to grow our scale of operations further.

Overall the Group continues to perform in line with the Board's expectations despite the challenging conditions in the UK, and we are encouraged by the competitive position of the business.

THE PORTFOLIO

PROJECT
Amex House

LOCATION
Brighton

Financial Review

ALAN DUNSMORE, FINANCIAL DIRECTOR

The Group's results for 2011 reflect a steady performance in a trading environment which remains very challenging. Underlying operating margins (before results of associates) have compressed as expected to 5.3% but the order book remains strong and the Group continues to operate at its current operating capacity.

Overview

The Group's results for 2011 reflect a steady performance in a trading environment which remains very challenging. Underlying operating margins (before results of associates) have compressed as expected to 5.3% but the order book remains strong and the Group continues to operate at its current operating capacity.

2011 represented the first full year of operations at the Group's Indian joint venture business. It was very much a year of establishing commercial and production foundations and the loss of £2.5m reflects this. These foundations have now been established providing the basis for a more positive performance in future.

As expected, debt levels increased during the year and continue to be managed very closely in the current difficult trading environment. This is supported by the new bank facility which was agreed in November 2011.

Revenue and Operating Profit

Revenue of £267.8m was flat year on year (2010: £266.7m). This reflects stable production volumes in the year along with relative stability in underlying steel prices.

The underlying operating profit before results of Associates of £14.2m was 14% down on prior year (2010: £16.6m), reflecting the expected operating margin compression from 6.2% to 5.3%. Although overall pricing stabilised during the year, margins remain tight and there are still examples of uneconomic pricing from competitors.

Share of Losses of Associate Companies

The Group's share of losses from its Indian joint venture was £2.5m for the year (2010: £0.4m underlying). This has been generated from the first full year of operation at the business. The results reflect a gradual increase of production during the year but at levels which, for most of the year, were below the required break-even position. Although the order book developed very well during the year, a number of customer driven contractual delays were experienced which, as well as impacting the production ramp-up, also impacted the extent to which profit could be accounted for on some of the larger contracts. The position achieved at year end however, provides a better platform for a more positive contribution from the joint venture during 2012.

Finance Costs

Net finance costs for the Group amounted to £1.6m (2010: £0.9m). This reflects higher prevailing debt levels throughout the year, along with some costs relating to the refinancing of the Group's bank facilities in November 2011.

Non-underlying Items

Non-underlying items reduced the profit before tax for the year by £3.3m (2010: £4.2m) and include the following:

- Amortisation of acquired intangibles — £2.7m (2010: £2.7m).
- Legal costs and provision movements — £0.6m (2010: £2.0m gain). During the year, some litigation involving the Group expanded in scope resulting in additional costs of £0.6m. A provision for future costs of £0.6m is also being retained.
- Share of pre-operating losses of Indian joint venture — nil (2010: £1.4m).
- Impairment in valuation of Investment Property — nil (2010: £2.1m).

Taxation

The underlying tax charge of £2.9m represents an effective rate of 23.2% (on applicable profit which excludes results of associates) compared with 26.6% in the previous year. This reflected a benefit from the satisfactory conclusion of some outstanding matters relating to previous years.

The total tax charge for the year was £1.0m which represents an effective tax rate of 10.3% (on applicable profit which excludes results of Associates). This includes the additional deferred tax benefit from the reduction in UK corporation tax to 25%. This is categorised as non-underlying and is included in other items.

Earnings per Share

Underlying basic earnings per share was at 8.05p, a decrease of 36% over the previous year. This calculation is based on the underlying profit after tax of £7.2m and 89,251,076 shares, being the weighted average number of shares in issue during the year.

Basic earnings per share, based on profit after tax after non-underlying items is 6.52p (2010: 8.58p). For 2011, there is no difference between basic and diluted earnings per share (2010: no difference).

THE PORTFOLIO

PROJECT
Cable Car

LOCATION
London

Financial Review CONTINUED

Dividend

The Board recommends a final dividend of 3.50p payable on 21 June 2012 to shareholders on the register at the close of business on 25 May 2012. This will give a total dividend for the year of 5.00p.

Balance Sheet

Shareholders' funds increased during the year from £130.9m to £132.3m. This equates to a total equity value per share at 31 December 2011 of 148.2p, compared with 146.7p at the end of 2010.

Goodwill on the Balance Sheet is valued at £54.7m (2010: £54.7m) and is subject to an annual impairment review under IFRS 3. No impairment existed at either 31 December 2011 or 2010.

Other intangible assets on the Balance Sheet are valued at £18.2m (2010: £20.5m). This represents the net book value of the intangible assets identified on the acquisition of Fisher Engineering in 2007, along with new software assets installed during 2011. The amortisation charged in the year was £2.7m (2010: £2.7m), giving a total amortised at the year-end of £21.3m (2010: £18.5m).

The Group has property, plant and equipment and investment property totalling £83.6m (2010: £86.9m). Depreciation charged in the year amounted to £4.5m (2010: £4.5m). Capital expenditure in the year was £2.1m (2010: £3.0m). This included investment in new financial systems and in value-add equipment for the Light Steel Division and plate profiling capability.

During the year, the Group invested £0.1m (2010: £2.9m) as equity into the joint venture company in India.

The Group's capital expenditure in 2012 in the UK is not expected to be more than £3m.

The Group's Atlas Ward subsidiary has a defined benefit pension scheme which, although closed to new members, had an IAS 19 deficit of £8.5m as at 31 December 2010. At 31 December 2011, the deficit increased to £9.6m and is shown as a liability in the Group Balance Sheet. The increase in the deficit is as a result of the changes in the assumptions made, including a reduction in corporate bond yields and an increase in mortality rates, partly offset by higher than expected returns on the scheme's assets.

Cash Flow

There was an increase in net debt during the year of £16.3m to leave the year-end position at £31.3m (2010: £15.0m). This movement includes a cash outflow from operating activities of £9.0m, and also includes dividends of £3.6m, investment in capital expenditure of £2.1m, and £3.7m of corporation tax payments. An increase in the overall level of net debt was expected, but the outflow from operating activities was higher than expected, driven by the contract mix and phasing at the year-end, coupled with greater tightness in customer settlements. We expect the effects of the contract mix and phasing to start unwinding over the next 2–3 months.

The Group secured new and increased credit facilities from RBS and Yorkshire Bank, a member of National Australia Bank Group, in November 2011. It now has borrowing facilities of £50m, a £10m increase over its previous facility. These will remain in place until November 2016 and will enable the Group to continue trading from a position of relative strength in its markets, in what continues to be a tough environment.

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, the euro and the US dollar. 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 PORTFOLIO

PROJECT
ArcelorMittal Orbit

LOCATION
Stratford

Financial Review continued

Going Concern

In determining whether the Group's annual consolidated financial statements can be prepared on a 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 key areas of uncertainty considered by the directors were as follows:

- The UK order book, (standing at £221m in March 2012), the pipeline of potential orders, including the relative attractiveness of the market sectors which are feeding that pipeline, and the anticipated conversion of this pipeline;
- The implications of the continuing challenging economic environment on the Group's revenues and profits. The Group undertakes forecasts and projections of trading and cash flows on a regular basis. Whilst this is essential for targeting performance and identifying areas of focus for management to improve performance and mitigate the possible adverse impact of a deteriorating economic outlook, they also provide projections of working capital requirements;
- The impact of the very competitive environment within which the Group operates, including pressures on margins and counterparty risks. This included an assessment of the current stage of the economic cycle of the construction industry, the prospects for any recovery in the short to medium term, and the potential development of the competitive environment;
- The impact on our business of key suppliers being unable to meet their obligations to the Group including the ability of the Group to find alternative suppliers who could also enable the business to continue trading satisfactorily;
- The potential mitigating actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected.
- The committed finance facilities to the Group, including both the level of the facilities and the banking covenants attached to them. The Group has access to £50m in credit facilities to meet day-to-day working capital requirements, which is available until November 2016. This facility provides the Group with sufficient headroom both on the facility itself and on the bank covenants in place. This position is forecast to continue for the foreseeable future.

Having considered all the factors impacting the Group's business, including downside sensitivities, the Directors are satisfied that the Group will be able to operate within the terms and conditions of the Group financing facilities for the foreseeable future.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 2011 Annual Report.

Summary

Overall, results for the year have been steady in a difficult trading environment. The Group's new banking facilities have reinforced our relative competitive strength in the current challenging market. While the Indian joint venture contributed a loss for the year, strong foundations have now been established for the future and a positive contribution is expected in 2012.

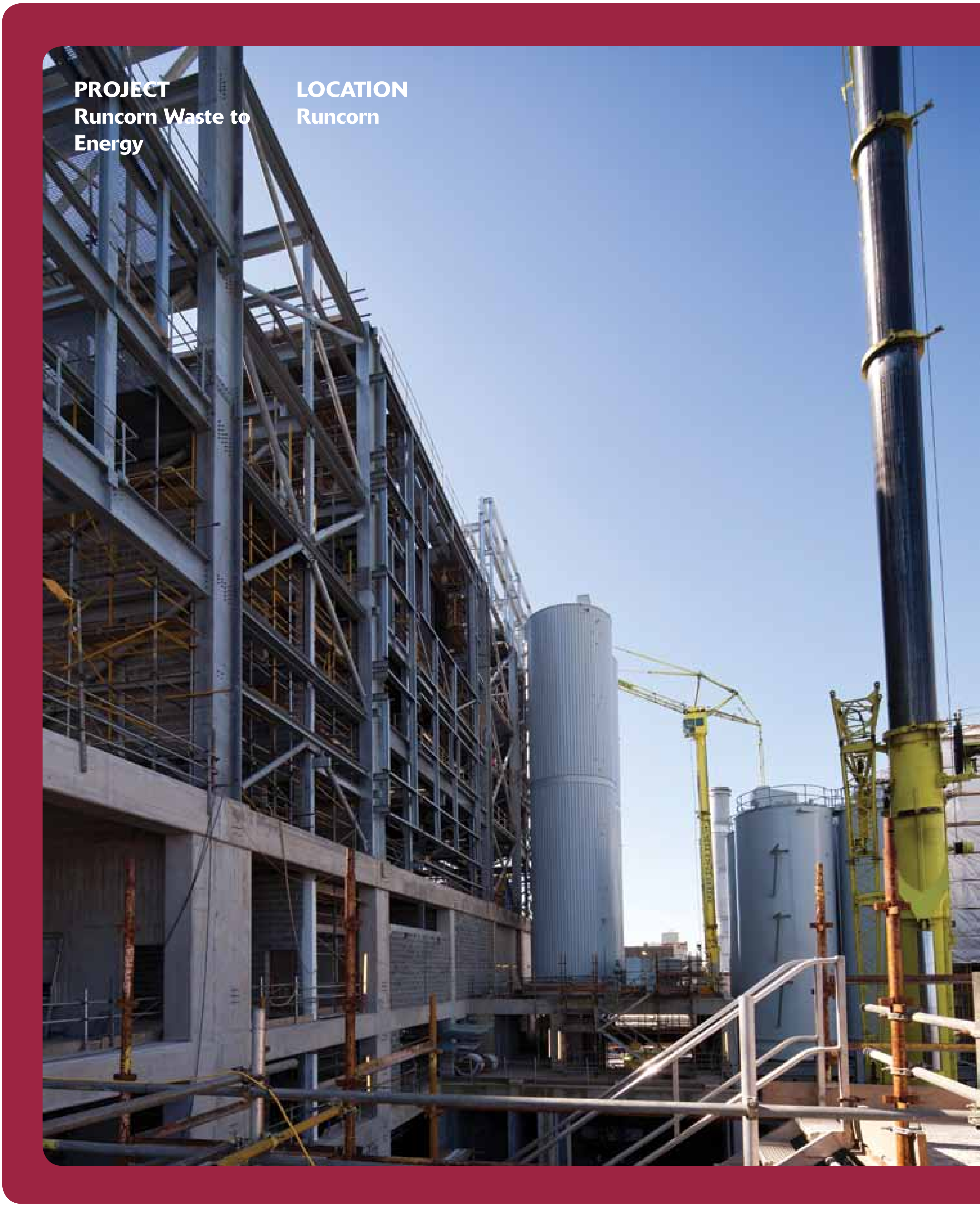
ALAN DUNSMORE
Finance Director

Key Performance Indicators

THE GROUP MEASURES SUCCESS THROUGH KEY PERFORMANCE INDICATORS (KPIs), SHOWN BELOW. THESE SHOULD BE REVIEWED IN THE CONTEXT OF MARKET CONDITIONS AND THE INDUSTRY SECTOR IN WHICH THE GROUP OPERATES.

KPI	COMMENT	PERFORMANCE IN 2011
UNDERLYING* OPERATING PROFIT MARGIN	The operating margin is the principal measure used by the Group to assess the success of its UK strategy. It is the profit before non-underlying items such as the amortisation of intangible fixed assets, expressed as a percentage of revenue.	A reduction in 2011 to 5.3% (2010: 6.2%). The reduction has been the result of lower contract pricing as a result of overcapacity in the market. Continuing weakness in the UK market has led to continued margin weakness. Whilst the latter part of the year saw improved pricing, this is still at very tight margins.
UNDERLYING* BASIC EARNINGS PER SHARE	Underlying basic earnings per share is taken as an overall indicator of performance. It is basic EPS before non-underlying items.	Underlying basic earnings per share decreased by 4.45p to 8.05p (2010: 12.50p). In the challenging market conditions, a resilient performance.
NET DEBT	Cash is critical for providing the financial resources to develop the Group's business and to provide adequate working capital to operate smoothly. The Group has a robust and detailed cash forecasting procedure that considers the Group's position on a contract by contract basis.	Net debt as at 31 December 2011 was £31.3 million (2010: £15.0 million). The movement primarily reflects an outflow of cash from operating activities. This has been driven by higher working capital levels and an overall extension in customer payment cycles as weak market conditions persist.
ORDER BOOK	The order book provides visibility on future activity and allows the Group to plan production and adapt accordingly. It only includes future revenue from legally committed contracts comprising both ongoing and newly won work. Whilst only the revenue within the order book is reported externally, a key forward indicator of future profitability that is tracked internally is the margin inherent within the forward order book.	The order book (March 2012) for the Group (excluding the Indian Joint Venture) is £221 million. This represents a strong position at a time of weak market conditions and also provides a good loading for the majority of the Group's production facilities for the remainder of 2012.
FORWARD PROSPECTS AND PIPELINE	The Group's prospect list and project pipeline provides longer term forward visibility on future orders and therefore production requirements. It only includes prospects with a good likelihood of conversion to orders in the near term.	The Group's forward prospects for the UK stood at £510 million in March 2012; they are proving to be resilient in the current economic climate and reflecting the Group's robust market position a significant portion are being converted.
ACCIDENT FREQUENCY RATIO (AFR)	The AFR is a key 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. The AFR is the number of RIDDOR accidents to man-hours worked, multiplied by 100,000.	The AFR rate for 2011 was 0.60. The Group recognises that all injuries are unacceptable and is committed to reducing injuries in our workforce. We have commenced our cultural and behavioural change programme and believe this will bring significant benefits to the Group in the future.

* Underlying profit has been defined on page 1.


PROJECT
Runcorn Waste to Energy
LOCATION
Runcorn

OUR GOVERNANCE

CONTENTS

STEEL FUTURES

POWER & ENERGY SECTOR

PROJECT Cleveland Waste to Energy
LOCATION Billingham

PROJECT West Burton Power Station
LOCATION Retford

PROJECT Staythorpe Power Station,
LOCATION Newark

PROJECT Lakeside Waste to Energy
LOCATION Slough

Directors and Advisers

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Advisers

Auditors

Deloitte LLP
Chartered Accountants
and Statutory Auditor
1 City Square
Leeds, LS1 2AL

Solicitors

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Broadwalk House
5 Appold Street
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Irwin Mitchell
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94 Albion Street
Leeds, LS1 6AG

The Royal Bank of Scotland plc
3rd Floor
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Leeds, LS1 4HR

Secretary and Registered Office

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Dalton, Thirsk
North Yorkshire
YO7 3JN

Registered Number

1721262

Registered in England

1 John Dodds
CHAIRMAN

John Dodds joined the Company as a non-executive director in October 2010, becoming Chairman in September 2011. He 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 and Lagan Construction Holdings Limited.

2 Tom Haughey
CHIEF EXECUTIVE OFFICER

Tom Haughey joined the Company as Group Commercial Director in February 2002. He graduated from Strathclyde University in 1978 and his career until joining the Group was within Corus (formerly British Steel) where his last position was Commercial Director of Corus Construction and Industrial. In November 2005 Tom was appointed Joint Group Managing Director and in July 2007 was appointed Chief Executive Officer.

3 Peter Emerson
CHIEF OPERATING OFFICER

Peter Emerson has worked in the Specialist Contracting Industry since 1974, initially in the concrete contracting sector. He joined Rowen Structures in 1984 as a quantity surveyor, rising to Deputy Managing Director in 1996. Peter was appointed Group Commercial Director in April 1998, and in December 2001 was appointed to the key role of Managing Director of Watson Steel Structures Ltd and also to Chief Operating Officer in July 2007.

4 Alan Dunsmore
FINANCE DIRECTOR

Alan Dunsmore joined the Company in March 2010 from Smiths Group Plc. Alan joined Smiths Group Medical Division in 1995, holding various positions throughout the business and from 2004 was Director of Finance for Smiths Detection. Prior to joining Smiths, he was with Coopers and Lybrand in Glasgow, where he qualified as a Chartered Accountant in 1992.

5 Derek Randall
EXECUTIVE DIRECTOR – INTERNATIONAL

Derek Randall was appointed Executive Director, Business Development in May 2008. He is a Master of Business Administration (Warwick Business School), Doctor of Business Administration (Nottingham Business School) and the Visiting Professor of International Management and Development at Birmingham City University's Business School. Before joining the Group, most of his career was with Corus Group latterly as Commercial Director of Long Products Division. Derek has served on the Executive Council of The Steel Construction Institute.

6 Keith Elliott
SENIOR NON-EXECUTIVE DIRECTOR

Keith Elliott joined the Company as a non-executive director in October 1998. He retired in July that year from Bechtel, the international engineering and construction group, where he was a partner in Bechtel Corporation and Senior Vice-President responsible for its petroleum and chemical business. He is a graduate chemical engineer and serves as non-executive Chairman of Keltbray Group.

7 Toby Hayward
NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF AUDIT COMMITTEE

Toby Hayward was appointed non-executive Chairman in June 2008, stepping down in September 2011 to become Chairman of the Audit Committee. He qualified as a Chartered Accountant with Deloitte in 1984 and became an Investment Banker. He was a Director of Corporate Finance at Singer & Friedlander Ltd and Henry Ansbacher & Co Ltd before working in the Equity Capital Markets team at Canaccord Capital Ltd. He joined Jefferies International Ltd as Managing Director in 2005 with responsibility for UK Corporate Broking and left Jefferies in June 2008 to concentrate on Consultancy and non-executive work.

8 Geoff Wright
NON-EXECUTIVE DIRECTOR

Geoff Wright was appointed as a non-executive director of the Company in September 2006. He retired from Hammerson plc, where he was Director of Project Management and Construction, having worked there for 37 years. He is well known in the property and construction industries and was previously President of the Chartered Institute of Building. He is a non-executive Director of Waterman plc and several private companies.

9 Chris Holt
NON-EXECUTIVE DIRECTOR

Chris Holt joined the Company as a non-executive director in November 2011. He retired in September 2010 from MJ Gleeson Group Plc after serving 2 years as Chief Executive, and prior to that 3 years as Group Finance Director. Chris's experience also includes 17 years with Foster Wheeler Ltd as Finance Director and Deputy Chairman of the UK subsidiary company and 12 years with Bechtel Corporation. Chris is a graduate of Leeds University, a qualified accountant and has an MBA from Golden Gate University, San Francisco.

Executive Committee

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STEEL FUTURES

1 Tom Haughey BA
CHIEF EXECUTIVE OFFICER

2 Peter Emerson
CHIEF OPERATING OFFICER

3 Alan Dunsmore BAcc CA
FINANCE DIRECTOR

4 Derek Randall MBA, DBA
EXECUTIVE DIRECTOR — INTERNATIONAL

5 Paul Thompson
EXECUTIVE DIRECTOR
Severfield–Rowen Structures

Paul Thompson joined the Group as Production Director of Watson Steel in 2002 and has 33 years of experience in the structural steel industry. In 2005 Paul was appointed Deputy Managing Director of Watson Steel and in January 2010, became Executive Director Group Business Operations. In January 2011 Paul was appointed Executive Director responsible for operations at Severfield-Rowen Structures whilst also retaining his Group position.

6 Steven Day
MANAGING DIRECTOR
Watson Steel Structures

Steven Day joined the Group in 2002 following the acquisition of Tubemasters, a business which he built and ran for 18 years previously. Until 2011 Steven was Commercial Director within Watson Steel, he was then appointed Managing Director responsible for operations at Watson Steel in January 2012. With over 35 years of experience in the UK structural steelwork market at all levels, he has considerable knowledge of the industry.

7 Nigel Pickard
MANAGING DIRECTOR
Atlas Ward Structures

Nigel Pickard joined the Group in 2005 following the acquisition of Atlas Ward Structures. He has 30 years' experience in the structural steelwork industry, working both in the UK and overseas markets. In 2000, Nigel was appointed Operations Director of Atlas Ward where he took full responsibility for production. Appointed as Managing Director in October 2002, Nigel transformed Atlas Ward's business, turning its substantial losses to profit and laid the foundations for further development in the future.

8 Ian Cochrane
MANAGING DIRECTOR
Fisher Engineering

Ian Cochrane joined the Group in 2007, following the acquisition of Fisher Engineering. Ian has worked at Fisher Engineering for 23 years, starting in the drawing office and progressing to Project Management. In January 2004, he was appointed Project Director and in October 2007, Managing 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.

9 Mike Ashton
MANAGING DIRECTOR
Steelcraft Erection Services

Mike Ashton has worked in the steel construction industry since 1977 and joined Steelcraft Erection Services in 1994. Mike was appointed Erection Director in 1998 and Managing Director in 2010. Mike has a wealth of experience in steel construction and site management.

10 David Larter
GROUP DIRECTOR
Business Sustainability

David Larter joined the Group in 2010 as Group Director – Business Sustainability. David has worked in the construction industry for 28 years and has held senior management and corporate strategic positions in international contracting and design consultancy businesses. He brings a wealth of experience in design, buildability and construction techniques on international major projects across a diverse range of sectors.

Corporate Objectives

THE PORTFOLIO

PROJECT
Leeds Arena

LOCATION
Leeds

Growth Built on Success

Since becoming a public company in 1988, Severfield–Rowen has grown to become market leader in the design, fabrication and erection of structural steel. Our leading position provides competitive advantage through production capacity, quality, delivery, the assumption of complexity and project management. We will leverage this advantage through continuing investment in human and capital resources, the application of emerging technologies and the constant refinement of our design, production and erection processes — the cornerstones of our success.

Geographic Diversification

These process improvements will be applied at our production facilities and construction sites at home and overseas. We will continue to seek out international opportunities which enhance growth and value for the Group. Such investments will frequently be made in partnership with premier local companies who can provide value enhancement and established routes into our core markets around the world.

Contribution to Community and Environment

In all of our production centres and work sites we will operate within an overriding sense of commitment to our surroundings. We will focus on training local people, we will set new standards for health and safety, our environmental policies will aim to surpass local requirements and we will introduce leading edge technologies to the regions in which we operate.

Enhanced Shareholder Value

Through these strategies we aim to grow in size and market value and continue to provide attractive returns to our shareholders. As a unique player in the engineering sector and as a British manufacturing business, we will offer a valuable diversification to many of our shareholders' portfolios.

THE PORTFOLIO

PROJECT
Titanic Signature Building

LOCATION
Belfast

Image courtesy of Donal McCann Photography

Principal Risks and Uncertainties

The Group's ongoing operations and growth plans are subject to a number of different risks and uncertainties. Risk management processes are put in place to assess, manage and control these on an ongoing basis. The principal ones facing the business are set out below, and are listed in no particular order.

Risk	Explanation	Impact	Mitigation/Comment
Commercial and market environment	The UK construction market, within which the Group operates, is currently at the bottom of the economic cycle, placing significant pressure on all parts of the supply chain, from end customers through to material and subcontract suppliers.	Weak demand is resulting 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.	▶ Increased senior management review of technical and commercial risks within each contract before acceptance. ▶ Strengthening of commercial functions to manage contract progress and variations. ▶ Close engagement with both customers and suppliers and monitoring of payment cycles. ▶ Continuing use of credit insurance to minimise impact of customer failure.
Steel price movements	Steel is the key material used within the business and the largest single cost within a contract. Steel prices can vary significantly in a short period of time.	Such movements have the potential to impact the profitability of both individual contracts and the whole business significantly, particularly given the long duration of many of its contracts.	▶ Supply and pricing agreements with steel suppliers are negotiated to minimise individual contract risk. ▶ Customer bids are structured to reflect the prevailing conditions within the market for raw steel.
People/skills	The Group has established a market leading position over many years due in large part to the experience and skills of its key people.	Loss of key people could adversely impact the Group's existing market position. Insufficient growth and development of its people and skill sets could restrict its growth ambitions both in the UK and overseas.	▶ Talent reviews undertaken regularly. ▶ Development opportunities identified for staff to broaden their range of skills and experience. ▶ A staff appraisal process continues to align the short and long term needs and goals of the business with those of key staff. ▶ Remuneration policy is regularly reviewed 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 either training, development or external recruitment.

Risk	Explanation	Impact	Mitigation/Comment
Interruption to fabrication facilities	The Group's production facilities are at the core of its business and the Group relies on smooth continued operation of them.	Interruption could impact both the Group's performance on existing contracts and its ability to bid for future contracts, thereby impacting its financial performance.	▶ 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. ▶ A wide network of subcontract fabricators is used on a recurring basis, both for short term peak capacity requirements and for more specialised fabrication. This network could also be used to mitigate disruption to the Group's own fabrication facilities. ▶ Appropriate levels of Business Interruption insurance cover are maintained and reviewed regularly with the assistance of independent advisers and brokers.
Indian Joint Venture	The Group has invested in a Joint Venture in India, where the growth prospects are believed to be substantial.	The growth, management and performance of this business will be a key element of the Group's development for the foreseeable future. Effective management of the Joint Venture is therefore key to the Group's continuing success.	▶ Robust Joint Venture agreement. ▶ Two members of Group Board of Directors are members of Joint Venture Board. ▶ Strong governance in place within the Joint Venture. ▶ Regular formal and informal meetings held with both Joint Venture management and joint venture partners. ▶ Key positions within Joint Venture management structure are occupied by Group employees seconded to the Joint Venture.
Health & Safety	The Construction Industry sets very high standards of Health and Safety which the Group aims to exceed to maintain the health and well-being of its employees.	Construction activities can result in injury or death to employees, with subsequent financial loss to the business, potential loss of reputation, where at fault, and ultimately exclusion from future business.	▶ Drive market leading standards for all employees at all times. ▶ 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 performance. ▶ Achievement of challenging Health and Safety performance targets is a key element of management remuneration.

Financial risks and uncertainties are separately described in the Financial Review on pages 24 to 26, and within note 21 of the Consolidated Financial Statements.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

Principal Activity and Business Review

The principal activity of the Group continues to be the design, fabrication and erection of structural steelwork, specialist claddings and ancillary products.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 13 and 14 to the financial statements.

A review of the Group's progress during the year and of its future prospects is contained in the Chairman's Statement on page 16, the Chief Executive's Review on pages 18 to 20 and the Financial Review on pages 22 to 26.

The key performance indicators of the Group are presented and discussed on page 27.

Explanation of the Group's approach to financial risk management is given in the treasury section on page 24 and in note 21.

A review of the Group's performance in the area of health and safety, and its consideration of environmental and employment policies, is given in the Corporate Social Responsibility section on pages 42 to 45.

Results and Dividends

The profit of the Group for the year after taxation amounted to £5,822,000 (2010: £7,633,000), details of which are set out in the Consolidated Income Statement on page 63.

An interim dividend of 1.50p net per share (2010: 5.00p) was paid on 22 October 2011. The directors recommend a final dividend for the year of 3.50p net per share (2010: 2.50p) payable on 21 June 2012 to shareholders on the register on 25 May 2012.

Fixed Assets

Details of changes in the Group's fixed assets are given in notes 10, 11 and 12 to the consolidated financial statements.

Employees

The Group's principal employee policies are set out on page 43 within the Corporate Social Responsibility section.

Branches

The principal branches of the Group are set out on pages 8 and 9.

Directors

The present membership of the Board is stated on page 31. N C Holt was appointed as a director on 9 November 2011. D P Ridley resigned on 7 October 2011.
All of the other directors served throughout the year.

The directors' interests in the share capital of the Company are set out on page 56 in the Directors' Remuneration Report.

P A Emerson, N C Holt and T J L Hayward will retire at the Annual General Meeting in accordance with the Articles of Association and will offer themselves for re-election.

Directors' and Officers' Liability

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

Agreements with Employees and Significant Agreements

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 which expire in November 2016 can be terminated upon a change of control of the Group.

Share Capital

The Company has a single class of share capital which is divided into ordinary shares of 2.5p each.

Three resolutions are to be proposed at the forthcoming Annual General Meeting relating to or concerning Share Capital. The long stop date of 30 September 2013 for each resolution reflects the recently announced change in Accounting Reference Date (see later).

Significant Shareholdings

As at 12 April 2012, the Company 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:

	2.5p Ordinary shares	%
M & G Investment Management	11,313,568	12.68
J O Hambro Capital Management	6,719,299	7.53
Aviva	6,546,968	7.34
Threadneedle Asset Management	5,635,655	6.31
Rathbone Investment Management	5,090,044	5.70
Legal & General Investment Management	5,025,058	5.63
Montanaro Fund Managers	3,659,084	4.10

(i) The directors of the Company may only allot shares or grant rights to subscribe for, or convert any security into, shares if authorised to do so by shareholders. The authority granted at the last Annual General Meeting is due to expire at the conclusion of this year's Annual General Meeting. Accordingly, Resolution 9 to be proposed at the Annual General Meeting will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for, or convert any security into, shares (a) up to an aggregate nominal amount of £743,015, and (b) in connection with a rights issue up to an aggregate nominal amount (reduced by allotments which may be made under part (a) of the resolution) of £1,486,030.

These amounts represent approximately 33.3%. and approximately 66.7%. respectively of the total issued ordinary share capital of the Company as at 13 April 2012, the latest practicable date prior to publication of this document. If given, these authorities will expire at the Annual General Meeting of the Company in 2013 or on 30 September 2013, whichever is the earlier.

The Directors have no present intention of issuing shares pursuant to this authority.

Following ABI guidance published on 31 December 2008, if the authority under Resolution 9(b) to allot share capital up to an aggregate nominal value of £1,486,030 is given, where allotments exceed £743,015 and one-third of the issued share capital of the Company (that is it exceeds the authority under Resolution 9(a), if given), all the Directors of the Company will stand for re-election at the Annual General Meeting of the Company in 2013.

(ii) The directors of the Company also require a power from shareholders to allot equity securities or sell treasury shares for cash and otherwise than to existing shareholders pro rata to their holdings. The power granted at the last Annual General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 10 to be proposed at the Annual General Meeting will be proposed as a special resolution to grant such a power. Apart from offers or invitations in proportion to the respective number of shares held, the power will be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £111,564 (being approximately 5%. of the Company's issued ordinary share capital at 13 April 2012, the latest practicable date prior to publication of this document). If given, this power will expire at the conclusion of the Annual General Meeting of the Company in 2013 or on 30 September 2013, whichever is the earlier to occur.

(iii) The directors are requesting that pursuant to Resolution 11 it be proposed at the Annual General Meeting they are given the authority to buy, by way of market purchases, up to 10% of the issued share capital of the Company representing a maximum of 8,925,108 shares. The price to be paid will be no lower than 2.5p per share and no more than the higher of (i) 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the five business days preceding the day on which the shares are purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange as stipulated in Article 5(1) of the Buy-back and Stabilisation Regulation 2003. Purchases would not be made in the close period preceding the announcement of the Company's interim or final results. This proposal does not indicate that the Company will purchase shares at any particular time or price, or imply any opinion on the part of the directors as to the market or other value of the Company's shares. This authority will expire at the end of the 2013 Annual General Meeting, or on 30 September 2013, whichever is the earlier. It is the present intention of the directors to seek a similar authority annually. The directors have no present intention of exercising this authority and will only do so at price levels which they consider to be in the interests of shareholders after taking account of the Group's overall financial position, and which would lead to a beneficial impact on the earnings per share of the Company.

Rights Attaching to Shares

The rights attaching to the ordinary shares are defined in the Company's Articles of Association. The Articles of Association may be changed with the agreement of shareholders. A shareholder whose name appears on the Company's Register of members can choose whether his shares are evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, shareholders may attend any general meeting of the Company and, on a show of hands, every shareholder (or his representative) who is present at a general meeting has one vote on each resolution and, on a poll, every shareholder (or his representative) who is present has one vote on each resolution for every ordinary share of which they are the registered shareholder. A resolution put to the vote of a general meeting is decided on a show of hands unless before, or on the declaration of the result of, a vote on a show of hands, a poll is demanded by the chairman of the meeting, or by at least five shareholders present in person or by proxy and having the right to vote, or by any shareholders present in person or by proxy having at least 10% of the total voting rights of all shareholders, or by any shareholders present in person or by proxy holding ordinary shares in which an aggregate sum has been paid up of at least one-tenth of the total sum paid up on all ordinary shares.

Shareholders can declare final dividends by passing an ordinary resolution but the amount of the dividends cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide the distributable profits of the Company justify such payment.

Directors' Report continued

THE PORTFOLIO

PROJECT
Thameslink Viaduct Bridge

LOCATION
London

Any dividend which has not been claimed for twelve years after it became due for payment will be forfeited and will then belong to the Company, unless the directors decide otherwise.

If the Company is wound up, the liquidator can, with the sanction of a special resolution passed by the shareholders, divide among the shareholders all or any part of the assets of the Company and he can value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members. No shareholders can be compelled to accept any asset which would give them a liability.

Details of share-based payment schemes are set out in note 22.

Voting at General Meetings

Any form of proxy sent by the Company to shareholders in relation to any general meeting must be delivered (subject to the provisions of the Articles of Association) to the Company, whether in written form or in electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide (where the shares represent at least 0.25% in nominal value of the issued shares of the same class) that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

Transfer of Shares

The Board may refuse to register a transfer of a share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped (if stampable), at the registered office of the Company or any other place decided by the Board, accompanied by a certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

Transfer of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

There are no other limitations on the holding of ordinary shares in the Company.

Variation of Rights

If at any time the capital of the Company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

(i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the class; or

(ii) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

The Company can issue new shares and attach any rights to them. If there is no restriction by special rights attaching to existing shares, rights attaching to new shares can take priority over the rights of existing shares.

General Meetings

A resolution is to be proposed at the forthcoming Annual General Meeting that a general meeting of the Company, other than an Annual General Meeting, can be called on not less than 14 clear days' notice.

CREST

The Company's ordinary shares are in CREST, the settlement system for stocks and shares.

Creditor Payment Policy

The Group's current policy concerning the payment of its trade creditors is to agree terms and conditions for its transactions with suppliers and to abide by those terms, subject to those terms and conditions being met by the supplier. At 31 December 2011 trade creditors of the Group represented 62 days of purchases (2010: 52 days, as reanalysed).

Charitable and Political Contributions

During the year the Group made charitable donations of £51,000 (2010: £118,000), principally to local charities serving the communities in which the Group operates.

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 the foreseeable future. For this reason the directors continue to adopt a 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 26.

Auditors

Each director, at the date of approval of this Annual Report, confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP has expressed its willingness to continue in office as auditors and a resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Notice concerning the Annual General Meeting to be held at Solberge Hall Hotel, Newby Wiske, Northallerton, North Yorkshire, DL7 9ER at noon on Wednesday 13 June 2012, 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.

Year-End Change

The Board has decided to change the year-end of the Group to 31 March, with effect from 31 March 2013. This is primarily to align the Group's reporting period with that of its Indian Joint Venture, which is expected to become an increasingly important element of the Group's financial performance in future years.

The transitional 15 month period will consist of two six month interim reporting periods, ending 30 June and 31 December, and a 15 month overall reporting period to 31 March. It is expected that a second interim dividend will be paid so that the impact of the change is neutral on overall dividends receivable by shareholders.

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

J D Rhodes
Company Secretary

27 April 2012

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

Corporate Social Responsibility

STEEL FUTURES

SAFE FUTURE	SUSTAINABLE FUTURE	ZERO CARBON FUTURE
• Safety Leadership	• Community & Stakeholder Engagement	• Carbon Management & Reduction
• Behavioural Safety	• Leadership & People Development	• Transport Policy & Strategy
• Safety 'Golden Rules'	• Market Leading Innovation	• Renewable Energy
• Health & Wellbeing	• Supply Chain Partnering	• Responsible Sourcing of Materials

SAFE FUTURE

Introduction

Our Corporate Social Responsibility agenda is key to the way we do business. Our people consider the safety, environmental, ethical and financial impacts of what we do and, through our 'Steel Futures' continuous improvement programme, we continue to create a point of differentiation for our business in the marketplace.

In 2011 we have been pleased with the significant progress that has been made across all of our operating companies, including:

- Development and implementation of our Golden Rules of Health and Safety
- Roll-out of our behavioural safety training programme
- Focussed leadership reviews across our Design, Construction and Production activities
- Significant investment in improved technology and IT solutions to maximise interaction, communication and team collaboration
- Increased intake of apprentices to help sustain the skills necessary for the future success of the Group
- Improved employee and workforce engagement
- Development of our Skills Academy training centre to further enhance the professional skills of our employees

Health and Safety

The Group is committed to high standards of Health and Safety for all employees and promotes safety excellence through all its operations. The Executive Committee has been working hard with our employees and supply chain partners throughout 2011. The Group's network of Safety Leadership Teams (SLTs), chaired by each business unit's Managing Director with representation from unions and shopfloor employees, have created a proactive environment for change and achieved some excellent progress. SLTs work closely with our key clients to set a strategy for improving safety standards and this is bringing real recognition for the efforts and results our employees are now delivering.

The Group's Health and Safety teams support operational directors across the Group in developing and maintaining a positive Health and Safety culture for all aspects of our operations. Each operating company has a worker Health and Safety committee with direct access into the main Board via monthly Health and Safety meetings.


GOLDEN RULES

Safety first
Turn up fit for work
Ensure you are trained / task briefed
Every unsafe event must be reported
Look around - STOP if anything changes

THINK SAFE ACT SAFE HOME SAFE

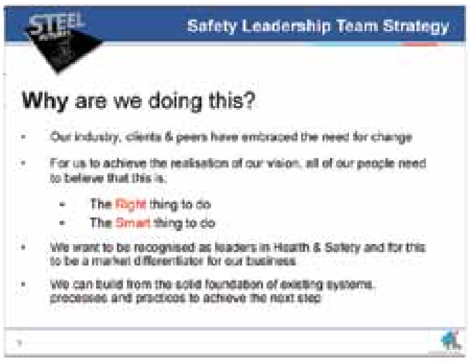
The Group operates in challenging working environments and is proud of its good safety record.

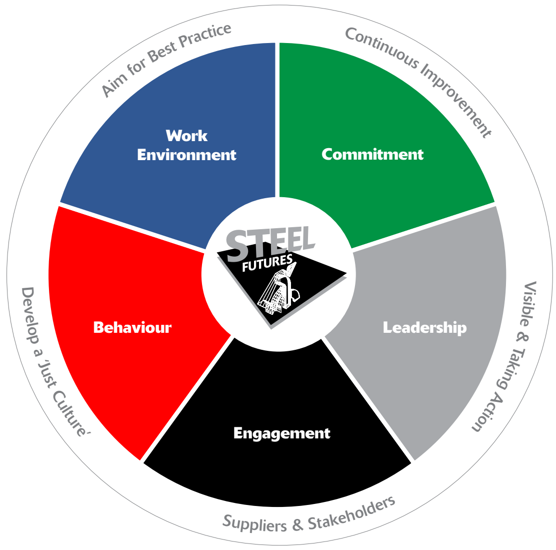
In 2011 there has been specific focus on the development of leadership skills and behaviours of our employees and the engagement of our subcontractors to help deliver our improvement strategy.

The Group has invested significant time and resource during an intensive roll-out of behavioural safety training and, to date, more than 900 employees and subcontractor construction teams have been through our innovative programme.

Our efforts are being recognised internally by our own staff and externally by our clients and the wider construction industry.

The successful roll-out and communication of our Health and Safety Golden Rules across all our factory and construction sites has reinforced our commitment to proactively addressing safety wherever we have a presence.





Employees

The Group's policy is to provide equal opportunities to all existing and prospective employees. The Group's reputation is dependant on the quality, effectiveness and skill base of its employees. It is committed to the fair and equitable treatment of all its employees and specifically to prohibit discrimination on the grounds of race, religion, sex, sexual orientation, age, nationality or ethnic origin.

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

Employee and Workforce Engagement

The Group has worked hard to promote an inclusive culture with effective two way communications with employees and union representatives to support the overall performance of the business.

Severfield–Rowen employees are regularly informed of matters concerning the performance and future developments of the Group with regular scheduled meetings.

Employees' interests are taken into account when making decisions and the Group has implemented a proactive engagement process to capture suggestions from employees aimed at improving performance.

Updates are provided through staff presentations on progress and strategy around the business.

SUSTAINABLE FUTURE

Community Engagement

The Group continued it's long standing commitment to community involvement and proactively engaged with organisations both locally and nationally.

During 2011 we actively supported and donated to the following local organisations: Butterwick Hospice, Saint Michael's Hospice and Bolton Hospice.

The Group companies recognise their duty as successful local employers and are involved directly with the local communities and residents, many of which are directly employed by the business.

Below are just some of the charities the Company made donations to during 2011:

The Christie Charity	The Prince's Trust	Help for Heroes
Philip Green Memorial Trust	Ballinamallard Youth Football	Macmillan Cancer Support
The Chara Foundation	British Heart Foundation Northern	Great Ormond Street Hospital
Rotary Club	The Stroke Association	Barnados and Ronald McDonald charities
Lighthouse Club	Cancer Research	Muscular Dystrophy
St Michael's Hospice	Dalton Village	Butterwick Hospice
Bolton House	Meningitis Trust	Multiple Sclerosis

Prince's Trust - People Development

The Group has been working closely with the Princes Trust to help make opportunities available for young people to enter the construction industry and support the prospects for a successful career path.

Janet Seymour, Head of The Prince's Trust Team programme for the North West said: "We are extremely grateful to Watson Steel for providing work placements for our young people, which gives them vital work experience to help get them a job."

John Bain, who was on a Prince's Trust course, impressed so much on his work placement that he was given a permanent role at the firm, demonstrating that placements can be a great way for companies to find new talent while helping to reduce levels of youth unemployment.

Corporate Social Responsibility continued

SUSTAINABLE FUTURE

Training

The Group has made a significant commitment to ensure our people and those engaged on our projects have the necessary skills and training to deliver the high standards and performance expected.

The Group's in-house training company, Engineering Construction Training Ltd (ECTL), creates and delivers bespoke people development programmes to up-skill all areas of our operations.

Through our Skills Academy the Group has the ability to target key areas of development and opportunities where we can work with our clients and other external organisations within the industry.

The Group has also engaged industry leading external consultants to help deliver innovative theatre based behavioural safety training to our people.

Behavioural Safety Training

During 2011 we commenced the roll-out of our behavioural safety training to engage with our construction employees and our sub-contract site based supply chain on the Health and Safety agenda.

These events have been well supported and the feedback has been very positive.

The Group has hosted several events around the UK, to date over 900 people from our construction teams have attended the sessions.

Behavioural Safety
Bringing Change To Our Industry

The Severfield-Rowen Group 'Steel Futures' continuous improvement strategy is entering the next phase of delivery.

A key aim is to ensure that safety is at the forefront of all operations we undertake, to achieve this we need to engage our employees, our supply chain and all other stakeholders we work with.

To support our objectives we are working with AKT, an industry leading behavioural safety consultancy that specialises in theatre based learning programmes.

You and/or your organisation will receive a personal invitation to attend one of our events and be encouraged to help us achieve a **Safe Future**

Date	Host - Business Unit	Venue	Address	Time
27th January	Atlas Ward	Cedar Court Hotel	Denby Dale Road, Calder Grove, Wakefield, WF4 3QZ	10.00
28th January	Steelcraft	Cedar Court Hotel	Denby Dale Road, Calder Grove, Wakefield, WF4 3QZ	09.00
2nd February	Watsons	The Mermaid Conference Centre	Puddle Dock, Blackfriars, London, EC4V 3DB	12.00
3rd February	Watsons	The Mermaid Conference Centre	Puddle Dock, Blackfriars, London, EC4V 3DB	09.00
24th February	Fisher Engineering	Manor House Hotel	Killadeas, Co Fermanagh, Ireland	12.00
25th February	Fisher Engineering	Manor House Hotel	Killadeas, Co Fermanagh, Ireland	09.00
10th March	Severfield-Reeve	Cedar Court Hotel	Denby Dale Road, Calder Grove, Wakefield, WF4 3QZ	09.00

THINK SAFE | ACT SAFE | HOME SAFE

Severfield-Rowen Plc

skills academy

Apprentice Training

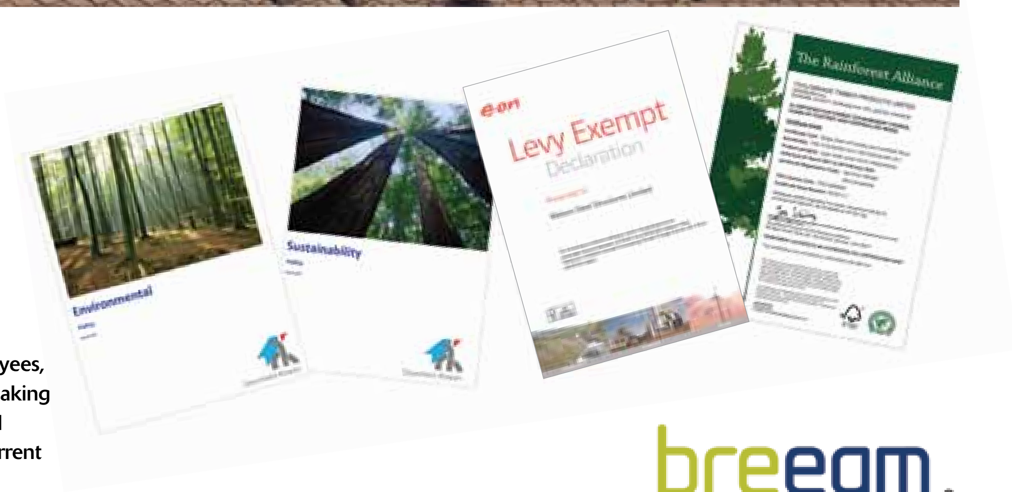
At Severfield-Rowen we are keen to develop the skills of young people within our industry. We have dedicated resource to provide the training and coaching necessary for success in this area.

Our apprentices undertake the necessary academic and practical training to help them become part of the teams for the future delivery of our projects.

skills academy apprentice coaching

THEATRE BASED – BEHAVIOURAL SAFETY TRAINING

skills academy
life long learning



Skills Development

The Group is developing the lifelong learning skills of our shop floor employees, over 50 of our factory staff are undertaking full NVQ training. This investment will underpin the successful delivery of current and future projects.

breeam
responsible sourcing
GBL LISTED

SUSTAINABLE FUTURE

ZERO CARBON FUTURE

Environment & Sustainability

The Group is committed to minimising the impact of its business and its processes on the natural environment and the community at large by going beyond just complying with laws, directives and regulations pertaining to its field of operations.

The Group has continued its successful accreditation to the standard of BES 6001 for the Responsible Sourcing of Materials and remains the only Steel Fabrication Contractor to have achieved this industry leading standard.

Carbon Agenda

The Group continues to pursue a carbon agenda that differentiates us in the marketplace.

In 2011 the decision was taken to proactively tackle our energy usage throughout the business.

As part of the first phase, our Watson business has negotiated its electricity supply to be from a renewable energy source, enabling them to be Climate Change Levy exempt.

At Severfield-Rowen Structures Ltd we took the decision to move to a low sulphur and reduced carbon heating oil while we negotiate an alternative renewable and possible self-generation solution.

The Group has commissioned a full strategic review of its energy usage and we expect further positive progress to be achieved in 2012.

Corporate Governance

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

This statement together with the Directors' Remuneration Report on pages 52 to 58 describe how the Company has applied and been in compliance with the principles set out in the 2010 Corporate Governance Code, including both the Main Principles and the supporting principles, set out by the Financial Reporting Council ("the Code").

DIRECTORS

The Board

The Company is controlled through the Board of Directors which currently comprises four executive and five non-executive directors, all of which are considered as independent.

J Dodds became Chairman on 1 September 2011.

D P Ridley resigned on 7 October 2011.

N C Holt was appointed as a replacement non-executive director from 1 November 2011.

T J L Hayward (previously Chairman) remains a non-executive director and has served as Chairman of the Audit Committee since 1 September 2011.

The Board has a separate Chairman and Chief Executive in line with the Code. The Chairman is mainly responsible for the running of the Board, evaluating its performance and ensuring that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chief Executive's responsibilities focus on co-ordinating the Company's business and assessing and implementing Group strategy.

J K Elliott is the senior independent non-executive director and leads the performance review of the Chairman, taking into account the views of the executive directors.

All directors are able to take independent professional advice in furtherance of their duties if necessary.

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.

An Executive Committee consisting of the members indicated on page 33 was established in 2008. 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.

In addition, a Group Health and Safety Committee, comprising all members of the Executive Committee, meets formally on a monthly basis. Safety Leadership Teams for each operating company report in to the Health and Safety Committee.

T G Haughey has Board level responsibility for Health and Safety and Employment matters; P A Emerson has Board level responsibility for Corporate and Social Responsibilty matters.

Board Effectiveness

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 strategic direction of individual trading subsidiaries, codes of conduct, annual budgets, progress towards achievement of those budgets and significant capital expenditure programmes.

The Board also considers employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. Other specific responsibilities are delegated to the Board committees described below. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years. The performance of individual directors is evaluated annually in conjunction with the remuneration review.

The Board generally meets monthly and during the year met twelve times. A formal agenda for each meeting is agreed with the Chairman and is circulated in advance of the meeting to allow time for proper consideration, together with relevant papers including key strategic, operational and financial information.

	Board	Remuneration Committee	Audit Committee	Nominations Committee
Total number of meetings held	12	6	2	3
J Dodds	11	6	2	3
T G Haughey	12	–	–	–
P A Emerson	11	–	–	–
A D Dunsmore	12	–	–	–
D Randall	11	–	–	–
J K Elliott	12	6	2	3
T J L Hayward	12	6	2	3
G H Wright	12	6	2	3
N C Holt(1)	2	1	1	1
D P Ridley(2)	9	5	1	2

(1) Full attendance at Board and relevant committee meetings following appointment.
(2) One non-attended Board meeting prior to resignation.

THE PORTFOLIO

PROJECT
Southmead Hospital

LOCATION
Bristol

Corporate Governance continued

THE PORTFOLIO

PROJECT
Olympia West Hall

LOCATION
London

Attendance of individual directors during 2011 at scheduled Board meetings and at meetings of the Remuneration, Audit and Nominations Committees is set out on page 46.

Non-attendance by directors at meetings was due to either conflicting commitments previously agreed or illness. The majority of the Board meetings are held at the Group's Head Office in Dalton, North Yorkshire. However, during the year three of the meetings were held at the offices of the Group's other operating subsidiaries providing non-executive directors the opportunity to increase their knowledge and understanding of the Group's operations.

Board Committees

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

The committees established are the Audit Committee, the Remuneration Committee and the Nominations Committee. Trading companies are managed by separate boards of directors. Any matters of a material nature concerning the trading companies are reported to the Group Board of directors on a monthly basis.

J K Elliott continues in his role as Senior Non-Executive Director for the immediate future notwithstanding that he has now served as a director for 13 years. He also continues with his chairmanship of the Remuneration Committee. The Board recognises that he is technically non-independent due to tenure but believes that he continues to act independently and recognises his high level of commitment and effective contribution to the Board's decision making process.

Audit Committee

The Audit Committee comprises the non-executive directors and since 1 September 2011 has been chaired by T J L Hayward. Both T J L Hayward and N C Holt are Chartered Accountants. The Committee has written terms of reference which will be available for inspection at the Annual General Meeting. Meetings are held at least twice a year and additional meetings may be requested by the auditor.

The responsibility of the Audit 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 Company's internal financial controls.
- To make recommendations to the Board in relation to the appointment and removal of the external auditor and to approve their remuneration and their 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 their objectivity in undertaking their work and monitoring their independence taking into account relevant UK professional regulatory requirements and the auditor's period in office and compensation.
- To oversee the effectiveness of the external audit process particularly with regard to the quality and cost-effectiveness of the auditor's work.
- To consider the need for an internal audit function. The Committee agrees with the directors' opinion that the Group is not of sufficient size and complexity to require an internal audit function.

Consistent with exercising these responsibilities the Committee has considered in detail both the final and interim results for 2011 specifically reviewing the appropriateness of significant accounting policies, financial reporting issues and judgements and relevant reports from both management and the external auditor. Throughout the year the Committee has continued to assist the Board in achieving its obligations under the Code in areas of risk management and internal control, focussing particularly on areas of compliance with legal requirements, accounting standards and the Listing Rules, and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Committee recognises that, given their knowledge of the business, there are often advantages in using the auditor to provide certain non-audit services. The Committee is satisfied that the independence of the auditor has not been impaired by providing these services. Non-audit services provided by the auditor during the year ended 31 December 2011 included corporation tax compliance advice and advice in connection with the Group's banking arrangements. The Committee has a policy of limiting fees to the auditor for non-audit services to 100% of the audit fee and requiring competitive tender for all work with a fee over £30,000. There are no specific types of non-audit work from which the auditor is specifically excluded but the Committee may reserve the right to insist that the auditor be excluded from tendering for work that may present a potential conflict of interest. The auditor complies with the Accounting Practices Board (APB) Ethical Standards applying to non-audit services.

Details of the auditor's fees are shown in note 4 on page 75.

On invitation, the Finance Director, other executive directors, Executive Committee members and the auditor attends meetings to assist the Committee to fulfil its duties. The Committee can access independent professional advice if it considers it necessary.

During the course of the past year the Audit Committee has received external guidance in reviewing its effectiveness. Following this review the scope and depth of its activities are expected to increase over the coming year.

The Committee met on two occasions in 2011 with full attendance.

Remuneration Committee

The Remuneration Committee operates under written terms of reference. These terms of reference are available for inspection at the Annual General Meeting and are published on the Company's website. The Committee comprises the non-executive directors, and is chaired by J K Elliott.

Nominations Committee

The Nominations Committee comprises the non-executive directors and is chaired by G H Wright. The principal task of the Committee is to deal with key appointments to the Board, and related employment matters.

The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board, and will meet as and when required.

The Committee met on three occasions during 2011 with full attendance to discuss Chairman succession plans, succession plans for other non-executive directors and the composition and chairmanship of Board Committees. The terms of reference for the Nomination Committee will be available for inspection at the Annual General Meeting.

All directors are required to seek re-election by the members at the Annual General Meeting following their appointment. 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 Annual General Meeting.

DIRECTORS' REMUNERATION

The Directors' Remuneration Report is set out on pages 52 to 58.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The performance and financial position of the Company are provided in the Chief Executive's Review on pages 18 to 20 and the Financial Review on pages 22 to 26, together with the Chairman's Statement on page 16 and the Directors' Report on pages 38 to 41.

These enable the Board to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibilities for the financial statements are described in the Directors' Responsibilities Statement on page 59.

Internal Control

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

Corporate Governance continued

THE PORTFOLIO

PROJECT
M8 Hotel

LOCATION
Stratford

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

There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives.

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

- Senior management from all key disciplines and subsidiary companies within the Group are involved in the process of risk assessment in order to identify and assess Group objectives, key issues and controls. A further review has been performed to identify those risks relevant to the Group as a whole. This assessment encompassed all aspects of risk including operational, compliance, financial and strategic. A risk register is in place and is updated on an ongoing basis and a control strategy has been determined for each of the significant risks.
- The risk management committee, chaired by T G Haughey, has the primary responsibility to identify, monitor and control the significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from line management and other sources on a regular basis.
- The Group operates a comprehensive budgeting and financial reporting system which, as a matter of routine, compares actual results with budgets. Management accounts are prepared for each subsidiary company and the Group on a monthly basis. Material variances from budget are thoroughly investigated. In addition, a more detailed profitability forecast based on actual contracts secured is regularly prepared to monitor the performance of the main operating company of the Group as the year progresses. Risks are identified and appraised throughout the annual process of preparing budgets. The Board approves the Group's annual budget.
- A credit insurance committee comprising T G Haughey, P A Emerson and A D Dunsmore has been established to review matters when adequate credit insurance on the Group's customers cannot be purchased in the present economic climate.

THE PORTFOLIO

PROJECT
A380 Hangar Modification

LOCATION
Heathrow

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

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

The Group operates a comprehensive "whistleblowing" policy, which is available on the Group's website. Accordingly, staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit Committee reviews adherence with this policy on an ongoing basis.

Subsidiary company meetings consider and report on risk on a monthly basis as part of the monthly business review process. This process is followed to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

Safety, Health and Environmental risks are continually monitored at all sites and are reviewed on a monthly basis by senior management and the Board.

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

Relations with Shareholders

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

J Dodds, T J L Hayward, T G Haughey, P A Emerson and A D Dunsmore attended several meetings with analysts, institutional shareholders and retail investors in the year ended 31 December 2011, either at the time of the announcements of the Company's interim or final results or during visits to the Company's offices in North Yorkshire.

Feedback from these meetings is reported to the Board, including the non-executive directors.

Direct discussions took place during the year between shareholders' representatives and J K Elliott with particular reference to the Directors' Remuneration Report.

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

Compliance Statement

The Board has applied and been in compliance with the principles set out in the Code throughout the year ended 31 December 2011 and up to the date of this report.

Directors' Remuneration Report

Introduction

As an independent body, this year, our Remuneration Committee faced a challenging dichotomy: the balancing of reward to executive management for strong performance in exceptionally difficult market conditions against reduced shareholder returns.

In the aftermath of the UK recession, starting in 2008, the UK construction industry has declined steadily year on year through 2011, both in public and private sector investment. Several competitors ceased trading in the past 12 months. In contrast, the Group achieved its challenging profitability budget, strengthened its market share, ended the year with a strong order book, managed its investment in India to provide significant returns in future years and renegotiated its banking facilities.

The market contraction combined with downward pressure on margins caused an inevitable decline in shareholder returns including dividend yield. The share price remained relatively stable, reflecting, we believe, the market's confidence in the strong management performance and our investment in the future.

The Remuneration Committee met several times throughout the past year seeking an equitable solution to the dichotomy. Our conclusions remain strictly within our published policies which are consistent with regulatory guidelines and best practice.

This report summarises our conclusions, sets out the remuneration payable for 2011 and our forward planning.

Reporting Regulations

This report, approved by the Board, has been prepared in accordance with Schedule 8 to the accounting regulations under the Companies Act 2006 and the Listing Rules of the Financial Services Authority. It also describes how the Board has applied the Principles relating to directors' remuneration under the UK Corporate Governance Code. The Remuneration Committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the ABI and RREV. As required by the legal regulations, a resolution to approve this report will be proposed at the Annual General Meeting of the Company at which time the financial statements will be approved.

The regulations require the auditors to report to the Group's shareholders on the "auditable part" of the Directors' Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

The Group has an established Remuneration Committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code. The Committee comprises five non-executive directors, J K Elliott, T J L Hayward, G H Wright, J Dodds and C Holt, and is chaired by J K Elliott. The Committee met on six occasions during the year with full attendance. C Holt joined the Board on 1 November 2011 and attended all meetings subsequent to his appointment. Prior to his resignation in October 2011 D P Ridley also served on the Remuneration Committee. All members of the Committee are considered to be independent. No executive directors attended Remuneration Committee meetings or otherwise play a part in any discussion about their own remuneration.

The statements made herein regarding remuneration policy apply equally to four of the divisional directors who serve on the Executive Management Committee and to the four executive directors who sit on the Board of Severfield–Rowen Plc.

Throughout 2011 New Bridge Street (a trading name of Aon Corporation) served as an independent adviser to the Remuneration Committee. Neither New Bridge Street nor any other part of Aon Corporation provided other services to the Group during the year.

The terms of reference for the Remuneration Committee are available from the Company Secretary and are published on the Group's website.

Remuneration Policy

Our policy objectives are unchanged: designing executive remuneration to attract and retain executive directors of the highest calibre, structured to reward excellent performance, to provide longer term motivation, to align directors' interests with those of external shareholders and to rationalise directors' pay policy with policy in the broader workforce.

Directors' Total Remuneration

Looking at the group of eight directors within the purview of the Remuneration Committee, the recent history and current status of directors' pay are as follows:

2009 to 2010: payroll reduced by 25%. All directors took a 20% pay-cut on 1 January 2010. This has not been reinstated. Bonus payments declined by 60%. Total remuneration was down by 41% in aggregate, a reduction of £1.5 million.

2010 to 2011: payroll remained unchanged. Bonus payments increased by 29%. Overall remuneration was up by 9%, an increase of £195,000.

2011 salaries remained at 80% of the 2009 level, bonuses at 50% and total remuneration at £2.4 million, two-thirds of that in 2009, a reduction of £1.2 million over two years.

The Future

Future executive remuneration policy will continue to incorporate our established policies and strive for consistency with best practice guidelines. In addition, the following initiatives will be implemented in 2012.

1. On 1 January 2012 a base salary increment of 3.1% will be awarded to directors mirroring that paid in July 2011 to the broader workforce.

2. The Remuneration Committee will commission a directors' remuneration benchmarking survey paying particular

attention to the selection of companies in the comparator groups and generally using any data with due care.

3. In addition, the Remuneration Committee will undertake a general review of our existing remuneration policies including cash bonus awards and performance criteria, long term incentive plans, directors' shareholding guidelines and directors benefits. Our terms of reference will include fitness for purpose, market parity, the balance between fixed and variable pay and adherence to best practice.

4. Changes to our policies based on the results of our review may be implemented in 2012 by the Remuneration Committee. Any such changes will, of course, be communicated fully to shareholders through our established reporting cycle.

Base salaries

Other than in respect of D Randall who was appointed as a main Board Director, base salaries (after allowance for increments to compensate for the introduction of a £50,000 pension contribution cap in 2011) were unchanged from the previous year.

They will be increased by 3.1% on 1 January 2012 mirroring a similar increase in workforce pay in July 2011.

Base salaries in 2011 originated in mid 2007 with the restructuring of the Company Board. Since that time a 3% increment was awarded in January 2008 and a 20% reduction in January 2010. As a result, current base salaries are significantly below their levels five years ago. Parity with comparable market norms is to be evaluated.

Annual Bonuses

We employ a two tier approach for bonus assessment with 60% of the maximum bonus being awarded based on financial performance, the Profit Before Tax ("PBT") out-turn versus the budgeted PBT, and 40% of the maximum bonus against a group of non financial performance targets aligned with corporate strategy such as Health and Safety and Corporate and Social Responsibility targets and international diversification strategy. The non financial performance targets are established by the Remuneration Committee and are reset annually at the start of each year.

Both the PBT (60%) Segment and the maximum bonus for the Non-Financial Segment (40%) are based on the following previously published formula:

	Bonus allowable – % base salary			
Performance: pre-tax profit vs budget	CEO	COO	Other PLC Directors	Divisional Directors
95% or below	0	0	0	0
100% or better	50 to 100	35–75	20–50	10–40
120% or better	100 to 150	75–125	50–100	40–75

In 2011, our PBT budget was met but not exceeded. Therefore, for the financial segment of the bonus, the ranges in the table at 100% of budget (highlighted) were applied.

In accordance with our established policy, setting of bonuses within the allowable ranges is at the discretion of the Remuneration Committee taking into account our assessment of individual contribution to financial results, prevailing market conditions (budget performance in difficult market conditions being better rewarded than in a seller's market) and contribution to the implementation of strategic initiatives which we anticipate will deliver profits in future years.

For the Non-Financial Segment (40%), the Remuneration Committee selected three subsets in 2011:

- Development of Health and Safety strategies – 16%
- Customer Performance Feedback from five customers with active projects in the year – 12%
- Indian subsidiary production and efficiency goals – 12%

The results against each subset target were evaluated and consolidated using the above weightings resulting in a 7 out of 10 score for the Non-Financial Segment. The most significant shortfall was in the India production targets which lagged the progress anticipated as discussed in the CEO's statement in this Report. Progress in development of H&S strategies was excellent and feedback from all five customers showed a high level of client satisfaction with performance.

The 7 out of 10 score was applied against the 40% of the maximum allowable bonus for each director to compute entitlement to bonus awards in this segment.

The combination of the financial and non-financial assessments gave rise to total bonus awards from 39% to 64% of the maximum allowable for individual directors under the published ranges. On average, bonus awards represented 57% of base salary and 36% of total remuneration, excluding pensions and benefits.

Details of the resulting bonuses paid for 2011 are set out in the table of directors' emoluments. The bonus payments are not pensionable.

Directors' Remuneration Report continued

THE PORTFOLIO

PROJECT
Park House

LOCATION
London

Non-Executive Directors

The remuneration of non-executive directors is considered by the executive directors and reflects the time that they commit to the Company. Non-executive directors cannot participate in any of the annual bonus, long term incentive or the Company's pension scheme.

Performance Share Plan (PSP)

Under the PSP rules shares are awarded at the start of a three-year period which can vest in whole or in part at the end of the three-year term subject to the achievement of a performance goal, the Performance Condition (PC). Participation is limited to the eight executive directors, comprising the four main Board directors and, currently, four divisional directors. The normal maximum limit for the value of shares comprising an award is 150% of salary in any year.

The Performance Condition (PC)

The PC is based on Earnings Per Share (EPS) assessed at the end of a three-year performance period. The EPS target ranges for each PSP award is set by the Remuneration Committee, prior to grant, with a three-year look ahead.

Vesting Record & Outlook

PSP awards made in 2008 and 2009 did not vest at the end of 2010 and 2011 due to the substantial contraction of the market and margins. Awards made in 2010 are unlikely to vest at the end of 2012, reflecting our overly optimistic assessment (at that time) of the timing and strength of the market recovery.

As a result, we expect three consecutive years of no vesting under the PSP. The PC established by the Remuneration Committee for awards at the start of 2011 will require a strong recovery over the next two years to deliver significant vesting at the end of 2013.

Forecasts vary widely on the timing and strength of the recovery and we find ourselves in markets where longer term forecasting is difficult and unreliable.

Our role as Remuneration Committee includes the establishment of performance goals through long terms incentive plans which are challenging but achievable through superior performance, thereby incentivising and rewarding success. We try to set performance conditions in our rolling three year targets that achieve that balance. And the difficulty in forecasting in the current unstable economic and political environment has heightened. Notwithstanding, we have reset the Performance Condition and PSP awards as set out below.

Performance Condition for 2012 Awards Based on Performance in 2014

At the lower threshold, below which no awards will vest, we have set a target EPS of 12.5p for 2014 representing approximately £15 million PBT. At the higher end the target EPS is set at 22.5p equivalent to a PBT approaching £27.5 million. These targets constitute annual growth rates in profitability between 14% p.a. and 40% p.a. over the three years 2012 through to 2014; that is, a forecast of between steady recovery and strong recovery.

PSP Award Levels

Attendant with setting the three-year PC, PSP awards will be granted at the start of 2012. The Remuneration Committee has elected to make awards in the range of 100% to 145% of base salary versus 150% maximum allowable in the PSP rules. The CEO will be granted 145% of base salary, three main Board directors will each be granted 125% and four divisional directors will each receive 100% awards. The award levels have been scaled back marginally this year in the context of some reduction in share price at the time of award. Each award will vest only on achievement of the three-year Performance Condition. Awards for an EPS in 2014 within the target range are based on linear interpolation.

Shareholding Guideline

A policy was introduced in 2004 whereby executive directors will be required to retain shares acquired under long term incentive schemes until such time they have built up a holding equivalent in market value (at the date of vesting) to the executive's base salary. Thereafter, the executive directors will be under a continuing obligation to maintain at least such a holding. The requirement underscores the Committee's policy to align executive director remuneration and shareholder interests.

Pensions

The Group contributes to each executive director's money purchase pension fund. Contribution rates for each director are £50,000 pa resulting in contribution levels in the range of 15–30% of base salary.

Service Contracts

The service contracts of executive directors run on a rolling basis and are no longer than 12 months' duration. Notice periods of 12 months are required to be given by all parties.

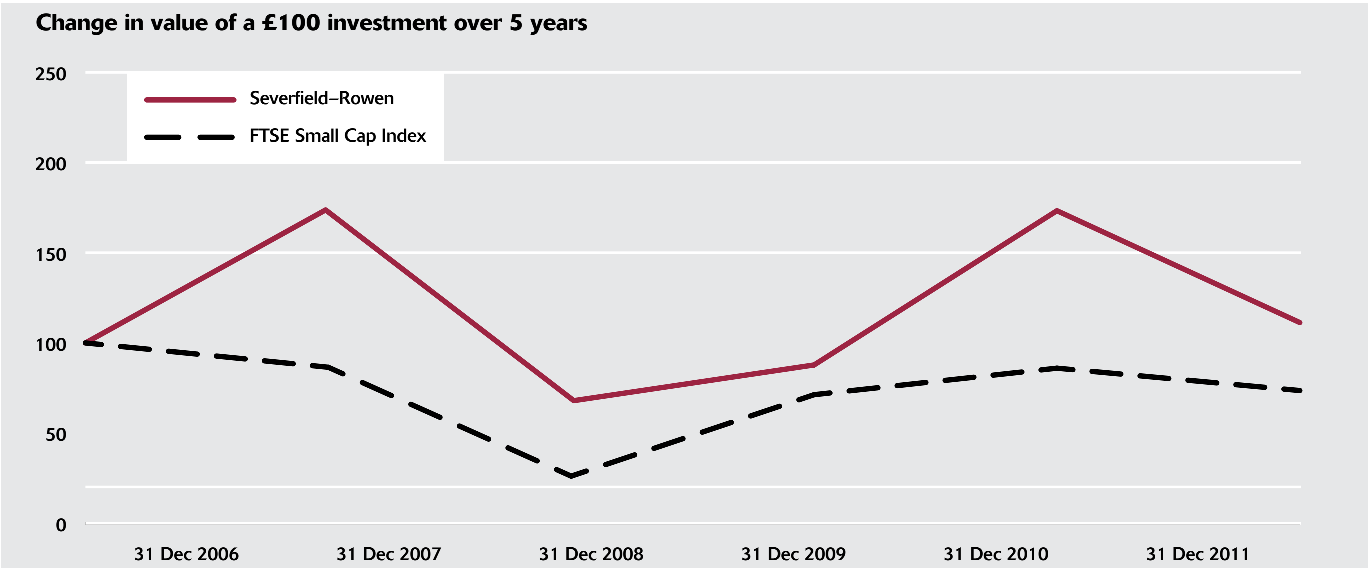
Full details of the contracts of each director including the date, unexpired term and any payment obligations on early termination are available from the Company Secretary and at the Annual General Meeting.

Directors' Remuneration Report continued

Performance Graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. It is based on the change in the value of a £100 investment made on 31 December 2006 over the five-year period ended 31 December 2011.

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



Directors' Interests

The directors and their families had the following beneficial interests in the share capital of the Company:

	31 December 2011* 2.5p Ordinary Shares	31 December 2010* 2.5p Ordinary Shares
J Dodds	**10,000**	–
T G Haughey	**246,611**	246,611
P A Emerson	**173,312**	160,312
A D Dunsmore	**10,000**	10,000
D Randall	**15,000**	–
J K Elliott	**200,000**	200,000
T J L Hayward	**30,000**	30,000
G H Wright	**4,000**	4,000
N C Holt	**10,572**	–

* Or date of appointment

There have been no changes in the directors' interests between the year-end and 19 April 2012.

AUDITED INFORMATION

Aggregate Directors' Remuneration

The total amounts for directors' remuneration were as follows:

	2011 £000	2010 £000
Emoluments — salaries, bonus and taxable benefits	**1,755**	1,389
— fees	**296**	197
— compensation for loss of office	**—**	287
Money purchase pension contributions	**211**	219
	2,262	2,092

Directors' Emoluments

Details of the directors' emoluments are as follows:

	Basic salary £000	Fees £000	Bonus £000	Taxable benefits £000	2011 Total £000	2010 Total £000
Executive						
T G Haughey	325	—	295	26	**646**	568
P A Emerson	260	—	170	25	**455**	421
A D Dunsmore (from 1/3/10)	216	—	105	25	**346**	311
D Randall (from 1/1/11)	205	—	80	23	**308**	—
Non-Executive						
J Dodds	—	68	—	—	**68**	15
J K Elliott	—	60	—	—	**60**	48
T J L Hayward	—	83	—	—	**83**	68
G H Wright	—	45	—	—	**45**	36
N C Holt (from 1/11/11)	—	7	—	—	**7**	—
D P Ridley (until 31/10/11)	—	32	—	—	**32**	30
Aggregate emoluments	1,006	295	650	99	**2,050**	1,497

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

A D Dunsmore's total remuneration for 2010 included £46,000 in respect of relocation upon his appointment.

Directors' Remuneration Report continued

Directors' Pension Entitlements

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

	2011 £000	2010 £000
T G Haughey	**55**	72
P A Emerson	**54**	67
A D Dunsmore (from 1/3/10)	**54**	54
D Randall (from 1/1/11)	**53**	–
Aggregate entitlements	**216**	193

Directors' Share Options

There are no share options outstanding at 31 December 2011 (2010: None).

The market price of the shares at 31 December 2011 was 167.00p and the range during the year was 150.00p to 333.50p.

Annual Deferred Bonus Share Scheme

Under the terms of the Severfield–Rowen Plc 1999 Annual Deferred Bonus Share Scheme no deferred share awards (as defined in the Scheme Rules) were made in 2011.

There were no bonus shares outstanding at 31 December 2011.

Performance Share Plan

Under the Company's Performance Share Plan the following awards over shares in issue at 31 December 2011 will vest with the directors subject to achievement of the performance criteria described on pages 53 and 55:

	Number of Shares vesting in 2012	Number of Shares vesting in 2013	Number of Shares vesting in 2014	Total Number of Shares
T G Haughey	252,451	189,338	194,095	635,884
P A Emerson	201,961	151,471	155,273	508,705
A D Dunsmore	–	125,613	111,007	236,620
D Randall	117,810	70,686	111,007	299,503
Total	**572,222**	**537,108**	**571,382**	**1,680,712**

Approval

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

J K Elliott
Chairman of Remuneration Committee

27 April 2012

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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 management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

T G Haughey
Chief Executive

A D Dunsmore
Finance Director

27 April 2012


PROJECT
Saica Paper Mill
LOCATION
Partington Wharfside

GROUP ACCOUNTS

CONTENTS

DISTRIBUTION & INDUSTRIAL SECTORS

PROJECT Bombardier Manufacturing Assembly Facility
LOCATION Belfast

PROJECT Distribution Centre
LOCATION Dunfermline

PROJECT Morrisons Regional Distribution Centre
LOCATION Bridgwater

PROJECT Ocado
LOCATION Tamworth

Independent Auditor's Report to the Members of Severfield–Rowen Plc

We have audited the Group financial statements of Severfield–Rowen Plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Directors' Report in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other Matter

We have reported separately on the parent company financial statements of Severfield–Rowen Plc for the year ended 31 December 2011.

Simon Manning
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
27 April 2012

Consolidated Income Statement
Year ended 31 December 2011

	Note	Before Other Items 2011 £000	Other Items 2011 £000	Total 2011 £000	Before Other Items 2010 £000	Other Items 2010 £000	Total 2010 £000
Continuing operations							
Revenue	3	**267,778**	**–**	**267,778**	266,692	–	266,692
Cost of sales		**(246,889)**	**(590)**	**(247,479)**	(242,568)	2,000	(240,568)
Gross profit		**20,889**	**(590)**	**20,299**	24,124	2,000	26,124
Other operating income		**508**	**–**	**508**	510	–	510
Distribution costs		**(2,756)**	**–**	**(2,756)**	(1,937)	–	(1,937)
Administrative expenses		**(4,448)**	**(2,749)**	**(7,197)**	(6,127)	(4,821)	(10,948)
Movements in the valuation of derivative financial instruments		**–**	**4**	**4**	–	39	39
Operating profit before share of results of Associates		**14,193**	**(3,335)**	**10,858**	16,570	(2,782)	13,788
Share of results of Associates		**(2,522)**	**–**	**(2,522)**	(366)	(1,394)	(1,760)
Operating profit	4	**11,671**	**(3,335)**	**8,336**	16,204	(4,176)	12,028
Investment income	6	**27**	**–**	**27**	55	–	55
Finance charges	6	**(1,581)**	**–**	**(1,581)**	(976)	–	(976)
Profit before tax		**10,117**	**(3,335)**	**6,782**	15,283	(4,176)	11,107
Tax	7	**(2,929)**	**1,969**	**(960)**	(4,160)	686	(3,474)
Profit for the period attributable to the equity holders of the parent		**7,188**	**(1,366)**	**5,822**	11,123	(3,490)	7,633
Earnings per share:	9						
Basic		**8.05p**	**(1.53p)**	**6.52p**	12.50p	(3.92p)	8.58p
Diluted		**8.05p**	**(1.53p)**	**6.52p**	12.50p	(3.92p)	8.58p

Other items relate to the amortisation of acquired intangibles, movements in the valuation of derivative financial instruments, movements in contract legal provisions and the associated tax impact of these items together with the impact of corporation tax rate reductions on the Group's deferred tax liability. In 2010, other items also included pre-operating losses of the Group's Indian Joint Venture and the impairment of investment property. These items have been disclosed separately in order to give an indication of the underlying earnings of the Group.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Note	**2011 £000**	2010 £000
Total profit for the period attributable to equity holders of the parent		**5,822**	7,633
Actuarial loss on defined benefit pension scheme	30	**(1,369)**	(440)
Tax relating to components of other comprehensive income	20	**172**	123
Total comprehensive income for the year attributable to equity holders of the parent		**4,625**	7,316

Consolidated Balance Sheet

31 December 2011

	Note	2011 £000	2010 £000
Assets			
Non-current assets			
Goodwill	10	**54,712**	54,712
Other intangible assets	11	**18,227**	20,495
Property, plant and equipment	12	**79,594**	82,949
Investment property	12	**3,960**	4,000
Interests in Associates	14	**447**	2,857
		156,940	165,013
Current assets			
Inventories	15	**9,085**	12,633
Trade and other receivables	17	**89,161**	71,861
Cash and cash equivalents		**2,264**	3,589
		100,510	88,083
Total assets		**257,450**	253,096
Liabilities			
Current liabilities			
Trade and other payables	18	**66,322**	75,868
Financial liabilities — borrowings	21	**33,159**	18,629
Financial liabilities — finance leases		**101**	—
Financial liabilities — derivative financial instruments	21	**104**	108
Tax liabilities		**3,883**	5,217
		103,569	99,822
Non-current liabilities			
Retirement benefit obligations	30	**9,552**	8,532
Deferred tax liabilities	20	**11,177**	13,199
Financial liabilities — finance leases		**254**	—
Provisions	19	**600**	600
		21,583	22,331
Total liabilities		**125,152**	122,153
Net assets		**132,298**	130,943
Equity			
Share capital	23	**2,231**	2,231
Share premium account		**46,152**	46,152
Other reserves	24	**469**	169
Retained earnings		**83,446**	82,391
Total equity		**132,298**	130,943

The financial statements were approved by the Board of directors on 27 April 2012 and signed on its behalf by:

T G Haughey
Director

A D Dunsmore
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2011		**2,231**	**46,152**	**169**	**82,391**	**130,943**
Profit for the period (attributable to equity holders of the parent)		**–**	**–**	**–**	**5,822**	**5,822**
Actuarial loss on defined benefit pension scheme	30	**–**	**–**	**–**	**(1,369)**	**(1,369)**
Deferred income taxes on defined benefit pension scheme	20	**–**	**–**	**–**	**172**	**172**
Dividends paid	8	**–**	**–**	**–**	**(3,570)**	**(3,570)**
Share-based payments	22	**–**	**–**	**300**	**–**	**300**
At 31 December 2011		**2,231**	**46,152**	**469**	**83,446**	**132,298**

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2010		2,215	46,152	1,065	83,043	132,475
Profit for the period (attributable to equity holders of the parent)		–	–	–	7,633	7,633
Actuarial loss on defined benefit pension scheme	30	–	–	–	(440)	(440)
Deferred income taxes on defined benefit pension scheme	20	–	–	–	123	123
Dividends paid	8	–	–	–	(8,883)	(8,883)
Share-based payments	22	16	–	(896)	915	35
At 31 December 2010		2,231	46,152	169	82,391	130,943

Consolidated Cash Flow Statement

Year ended 31 December 2011

	Note	2011 £000	2010 £000
Net cash outflow from operating activities	25	**(8,968)**	(11,203)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**624**	225
Purchases of property, plant and equipment		**(2,139)**	(3,025)
Interest received		**28**	61
Purchases of shares of associates		**(113)**	(2,884)
Net cash outflow from investing activities		**(1,600)**	(5,623)
Cash flows from financing activities			
Finance charges incurred		**(2,072)**	(879)
Borrowings taken out		**14,530**	18,629
Finance leases taken out		**457**	–
Repayment of finance lease obligations		**(102)**	–
Dividends paid		**(3,570)**	(8,883)
Net cash inflow from financing activities		**9,243**	8,867
Net decrease in cash and cash equivalents		**(1,325)**	(7,959)
Cash and cash equivalents at beginning of period		**3,589**	11,548
Cash and cash equivalents at end of period		**2,264**	3,589

Notes to the Consolidated Financial Statements
Year ended 31 December 2011

1. Significant accounting policies

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The 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 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.

In 2011, several new, revised and amended standards and interpretations became effective. These are IAS 24 (revised) "Related party disclosures", IFRS 1 (amendment) "First time adoption: financial instrument disclosure", IAS 32 (amendment) "Financial instruments: Presentation on classification of rights issues", IFRIC 19 "Extinguishing financial liabilities with equity instruments", IFRIC 14 "Prepayments of a minimum funding requirement", and improvements to IFRSs (2010). The adoption of these standards and relevant interpretations has not had a material impact on the financial statements of the Group.

Going concern
After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt a going concern basis in preparing the financial statements. The key factors considered by the directors in making the statement are set out within the Financial Review on pages 22 to 26.

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 to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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.

Consolidated Income Statement disclosure
In order to give an indication of the underlying earnings of the Group, certain items are presented in the middle column of the Consolidated Income Statement entitled "Other Items". In 2011 these comprise:

- amortisation of acquired intangibles;
- movements in the valuation of derivative financial instruments;
- costs provided in respect of a contract legal claim during the year;
- release of a contract legal provision which was no longer required; and
- the associated tax impact of the above items together with the impact of future reductions in corporation tax rates on the Group's deferred tax liability.

In 2010 they also included:

- pre-operating losses of the Indian JV; and
- an impairment charge in relation to an investment property.

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, plus any costs directly attributable to the business combination. 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 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 chosen to adopt the equity method of accounting (as discussed below) for Joint Ventures and Associated Companies (together "Associates"), in accordance with IAS 31.

The results and assets and liabilities of Associates are incorporated in these financial statements using the equity method of accounting unless it meets the exceptions described in IAS 28. Investments in Associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the Associate, less any impairment in the value of individual investments. Losses of the Associates in excess of the Group's interest in those Associates are not recognised unless, and only to the extent that, the Group has incurred legal or constructive obligations on behalf of the Associates.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the Associate 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 Associate 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 Associates' profit less losses while the Group's share of the net assets of the Associates is shown in the Consolidated Balance Sheet.

Goodwill

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.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill arising prior to 1 January 1998 of £1,122,000 was taken directly to reserves in the year in which it arose. Such goodwill has not been reinstated on the balance sheet.

Negative goodwill arising on acquisition is recognised immediately in the Consolidated Income Statement.

Revenue recognition

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

Profit is recognised on contracts, if the final outcome can be assessed reliably, by including in the income statement revenue and related cost as contract activity progresses. Revenue is calculated as the proportion of total expected contract value which corresponds to the proportion of costs incurred to date to total expected costs for that contract. Variations in contract work, claims and incentive payments are included in revenue to the extent that there is appropriate certainty that they will ultimately be accepted by the customer and can be measured reliably.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent contract costs have been incurred and it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total expected contract costs will exceed total expected contract revenue, the expected loss is recognised as an expense immediately.

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.

Operating profit

Operating profit is stated after charging any restructuring costs, impairment and amortisation charges, gains or losses arising on the fair value of foreign exchange derivative contracts and after the share of results of Associates and the impact of any movements in legal provisions but before investment income and finance costs.

Additionally, we present a separate additional, non-statutory, heading "Operating Profit before results of Associates" to assist in isolating the impact of the Group's Indian Joint Venture. This also excludes the results of two other non-material Associates.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

1. Significant accounting policies continued

Retirement benefit costs

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.

In addition, Atlas Ward, acquired on 31 March 2005, has a defined benefit scheme which is now closed. The liability in respect of this scheme is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets, together with adjustments for actuarial gains/losses.

The finance cost of liabilities and expected return of assets are included within administrative expenses in the Consolidated Income Statement.

The actuarial gain or loss is charged through the Consolidated Statement of Comprehensive Income and is made up of the difference between the expected return on assets and those actually achieved, the difference between the actuarial assumptions for liabilities and actual experience in the period and any changes in the assumptions used in the valuations.

The pension scheme deficit is recognised in full and presented on the face of the Consolidated Balance Sheet. The associated deferred tax asset is recognised within the net deferred tax liability within non-current liabilities in the Consolidated Balance Sheet.

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 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 Group's financial statements in the period in which they are declared, appropriately authorised and no longer at the discretion of the Company.

Property, plant and equipment

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

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/ Investment properties	1% straight-line
Plant and machinery	10% straight-line
Fixtures, fittings and office equipment	10% written down value
Computer equipment	20% straight-line
Motor vehicles	25% written down value
Site safety equipment	20% 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 recognised in income.

Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost less provision for impairment. Depreciation will be charged annually based on the Group's stated depreciation policy together with an annual impairment review. Where properties have been impaired below cost and are being held at directors' valuation the directors have taken appropriate external guidance on the likely current value of properties. No investment properties have been subject to formal external valuation.

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 on all business combinations from 1 January 2004.

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.

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.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

1. Significant accounting policies continued

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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 22.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and, as appropriate, are discounted to present value where the effect is material.

Derivative financial instruments

The Group enters into certain foreign exchange forward contracts to manage its exposure to currency movements. Further details of derivative financial instruments are disclosed in note 21 to the financial statements.

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.

2. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Revenue and margin recognition

The Group's revenue recognition and margin recognition are central to the way the Group values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long term construction contracts, which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes and maintenance liabilities.

The Group applies rigorous 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.

Retirement benefit obligations

Details of the Group's defined pension scheme are set out in note 30. The scheme has been valued in accordance with IAS 19 "Employee Benefits". At 31 December 2011 the defined benefit obligation recognised on the Group's balance sheet was £9,552,000. The benefit obligation is calculated using a number of assumptions including increases in pension benefits, mortality rates and inflation and the future investment returns from the scheme's assets. The present value of the benefit obligations is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date.

The scheme's assets are valued at market rates at the balance sheet date. Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the difference between expected and actual returns on the scheme's assets are classified as actuarial gains and losses.

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements. Those judgements involving estimations are dealt with below.

Impairment of goodwill and intangible assets arising from acquisitions

Determining whether goodwill or associated intangible assets are impaired requires an estimation of the value in use 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 and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £54,712,000 and of intangible assets arising from acquisitions was £18,227,000. No impairment adjustment has been made for the year ended 31 December 2011.

Impairment of investment property

In the absence of a formal valuation, determining the carrying value of the Group's investment property requires an assessment of fair value. The key factors considered by the directors in determining fair value are the possible open market valuation and rental yields on the property. The written down value of the Group's investment property as at the balance sheet date was £3,960,000. This reflects the impact of an impairment charge of £2,073,000 made during 2010 as well as an ongoing depreciation charge of £40,000 in 2011.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

3. Revenue and segmental analysis

Revenue

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

	2011 £000	2010 £000
Revenue from construction contracts	**267,778**	266,692
Total revenue	**267,778**	266,692
Other operating income	**508**	510
Interest received	**27**	55
Total income	**268,313**	267,257

Segmental results

Following adoption of IFRS 8, the Group has identified its operating segments as those upon which the Executive Committee regularly assesses performance.

The Group has deemed it appropriate to aggregate its operating segments into one reported segment. The constituent operating segments have been aggregated as they have businesses that have similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics.

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

Revenues by product group

All revenue is derived from construction contracts is related assets.

Geographical information

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

	2011 £000	2010 £000
Revenue by destination:		
United Kingdom	**261,158**	260,528
Republic of Ireland and mainland Europe	**990**	3,632
Other countries	**5,630**	2,532
	267,778	266,692

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 revenues is approximately £79.2 million (2010: £93.1 million) in relation to sales from two (2010: three) customers who individually contributed over 10% to combined Group revenue in the relevant years.

4. Operating profit

Operating profit for the year has been arrived at after crediting:	2011 £000	2010 £000
Rent receivable	**495**	487
Unrealised gains on derivative financial instruments	**4**	39
Gain on sale of property, plant and equipment	**20**	—
and after charging:		
Amortisation of intangible assets (note 11)	**2,749**	2,749
Depreciation on owned assets (note 12)	**4,413**	4,503
Depreciation on assets held under finance lease	**51**	—
Depreciation and impairment of investment properties (note 12)	**40**	2,135
Loss on sale of property, plant and equipment	**—**	165
Auditor's remuneration		
— audit	**154**	167
— other services	**121**	103
Rentals under operating leases		
— hire of plant and machinery	**4,142**	2,542
— other operating leases	**1,045**	2,068
Staff costs (note 5)	**52,430**	52,166

The analysis of auditor's remuneration is as follows:

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**16**	16
Fees payable to the Company's auditor and their associates for other services to the Group		
— The audit of the Company's subsidiaries pursuant to legislation	**138**	151
Total audit fees	**154**	167
Tax services		
— advisory and compliance services	**91**	103
Corporate finance advice	**30**	—
Total non-audit fees	**121**	103

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

5. Directors and employees

Details of directors' remuneration for the year are provided in the audited part of the Directors' Remuneration Report on pages 57 and 58.

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

	2011 Number	2010 Number
Production	**963**	927
Site	**191**	204
Sales and administration	**53**	48
	1,207	1,179

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	**45,157**	44,973
Social security costs	**5,239**	5,199
Other pension costs	**2,034**	1,994
	52,430	52,166

Employee remuneration costs under Share Based Payment Schemes are set out in note 22.

6. Investment income and finance charges

	2011 £000	2010 £000
Investment income — Interest receivable	**27**	55
Finance charges — Interest and other costs in relation to bank borrowings	**(1,581)**	(976)
Net finance charges	**(1,554)**	(921)

7. Tax

a) The tax charge comprises:

	2011 £000	2010 £000
Current tax		
UK corporation tax charge at 26.5% (2010: 28.0%) based on profits for the year	**3,730**	5,161
Adjustments to prior years' tax provision	**(920)**	(586)
Total current tax	**2,810**	4,575
Deferred tax		
Current year credit (note 20)	**(954)**	(746)
Impact of reduction in future years' tax rates	**(1,085)**	(488)
Adjustments to prior years' provision	**189**	133
Total deferred tax	**(1,850)**	(1,101)
Total tax on profit on ordinary activities	**960**	3,474

b) Tax reconciliation

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

	2011 £000	2010 £000
Profit before tax	**6,782**	11,107
Tax on Group profit on ordinary activities at standard		
UK corporation tax rate of 26.5% (2010: 28.0%)	**1,797**	3,110
Expenses not deductible for tax purposes	**311**	215
Tax effect of share of results of Associates	**668**	493
Unprovided deferred tax movement	**–**	(2)
Impairment of fixed assets	**–**	599
Adjustments to prior years' provisions	**(731)**	(453)
Rate differences	**(1,085)**	(488)
Income tax expense for the year	**960**	3,474

Rate differences arise through the enacted reduction (as at 31 December 2011) in corporation tax rates from 26.0% to 25.0% effective April 2012 reducing the level of the Group's deferred tax liabilities. This item is treated as non-underlying.

8. Dividends

	2011 £000	2010 £000
Amounts recognised as distributions to equity holders in the period:		
Second interim dividend for the year ended 31 December 2010 of Nil per share (2009: 5.0p)	**–**	4,430
Final dividend for the year ended 31 December 2010 of 2.5p (2009: Nil) per share	**2,231**	–
Interim dividend for the year ended 31 December 2011 of 1.5p (2010: 5.00p) per share	**1,339**	4,453
	3,570	8,883
Proposed final dividend for the year ended 31 December 2011 of 3.5p (2010: 2.5p) per share	**3,124**	2,231

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

9. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

	2011 £000	2010 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent company	**5,822**	7,633
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent company	**7,188**	11,123

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**89,251,076**	88,973,821
Effect of dilutive potential ordinary shares:		
Share-based payments scheme	**–**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**89,251,076**	88,973,821
Basic earnings per share	**6.52p**	8.58p
Underlying basic earnings per share	**8.05p**	12.50p
Diluted earnings per share	**6.52p**	8.58p
Underlying diluted earnings per share	**8.05p**	12.50p

Reconciliation of earnings

	2011 £000	2010 £000
Net profit attributable to equity holders of the parent company	**5,822**	7,633
Other items	**1,366**	3,490
Underlying net profit attributable to equity holders of the parent company	**7,188**	11,123

Further details of others items are given in the Consolidated Income Statement.

10. Goodwill

The carrying value of goodwill is allocated to cash-generating units (CGUs) as follows:

	£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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might 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 period. 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. It is anticipated that sales volumes in the UK will not increase materially over the next three years.

The Group prepares forecast cash flows based on the following years' operating budget, approved by the directors, together with cash flows based on budgets for the following two years which are derived from the directors' views on revenue prospects to the end of 2014 (this equates to a compound annual growth rate from budgeted 2012 levels of 2%). After this period, the growth rate applied to the cash flow forecasts is the projected economic growth rate for the industry. The cash flow forecasts have been discounted using a pre-tax discount rate of 9% (2010: 9%).

The Group has conducted a sensitivity analysis on the impairment test for the Fisher Engineering goodwill. A reduction in growth rates to 0% in 2012–13 and flat thereafter would result in the recoverable amount of goodwill being reduced to its carrying value of £48.0 million.

The Group has also undertaken an assessment of the Atlas Ward position and no requirement for impairment has been identified.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

11. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets acquired £000	Total £000
Cost			
At 1 January 2010	39,000	–	39,000
Additions	–	–	–
At 1 January 2011	39,000	–	39,000
Additions	–	481	481
At 31 December 2011	**39,000**	**481**	**39,481**
Amortisation			
At 1 January 2010	15,756	–	15,756
Charge for the year	2,749	–	2,749
Impairment loss	–	–	–
At 1 January 2011	18,505	–	18,505
Charge for the year	2,749	–	2,749
At 31 December 2011	**21,254**	–	**21,254**
Carrying amount			
At 31 December 2011	**17,746**	**481**	**18,227**
At 31 December 2010	20,495	–	20,495

The intangible assets acquired on acquisition arise as a result of applying IFRS 3 which requires the separate recognition of acquired intangibles from goodwill. During 2007 the acquisition of Fisher Engineering Limited resulted in intangible assets as follows:

	Customer relationships £000	Brands £000	Order book £000	Know-how £000	Total £000
Cost					
At 1 January 2010 and 31 December 2011	**25,800**	**3,200**	**9,600**	**400**	**39,000**
Amortisation					
At 1 January 2010	5,780	286	9,600	90	15,756
Charge for the year	2,581	128	–	40	2,749
At 1 January 2011	8,361	414	9,600	130	18,505
Charge for the year	2,581	128	–	40	2,749
At 31 December 2011	**10,942**	**542**	**9,600**	**170**	**21,254**
Net book value					
At 31 December 2011	**14,858**	**2,658**	**–**	**230**	**17,746**
At 31 December 2010	17,439	2,786	–	270	20,495

Amortisation of acquired intangibles is included in the Consolidated Income Statement as part of Administrative expenses and is classified within the middle column entitled "Other items".

The amortisation period for each category of intangible asset is disclosed in the Statement of Significant Accounting Policies on page 71.

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

	Investment property £000	Freehold and long leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2010	6,197	65,611	36,662	1,797	2,800	113,067
Additions	—	9	2,414	222	288	2,933
Disposals	—	—	(857)	—	(785)	(1,642)
At 1 January 2011	6,197	65,620	38,219	2,019	2,303	114,358
Additions	—	26	940	234	496	1,696
Disposals	—	(263)	(7,526)	(673)	(609)	(9,071)
At 31 December 2011	**6,197**	**65,383**	**31,633**	**1,580**	**2,190**	**106,983**
Accumulated depreciation						
Depreciation						
At 1 January 2010	62	1,415	18,098	1,201	1,249	22,025
Charge for the year	62	468	3,522	174	339	4,565
Impairment loss	2,073	—	—	—	—	2,073
Disposals	—	—	(764)	—	(490)	(1,254)
At 1 January 2011	2,197	1,883	20,856	1,375	1,098	27,409
Charge for the year	40	468	3,452	177	367	4,504
Disposals	—	—	(7,405)	(673)	(406)	(8,484)
At 31 December 2011	**2,237**	**2,351**	**16,903**	**879**	**1,059**	**23,429**
Carrying amount						
At 31 December 2011	**3,960**	**63,032**	**14,730**	**701**	**1,131**	**83,554**
At 31 December 2010	4,000	63,737	17,363	644	1,205	86,949

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

12. Property, plant and equipment, investment property continued

The net book value of the Group's plant and machinery includes £438,000 (2010: £Nil) in respect of assets held under finance leases.

The investment property represents land and buildings held in Leeds. The Group is receiving rental income on this property until the end of 2012 at a current rate of £378,000 per annum. This has been subject to an annual depreciation charge at 1% as required under the Group's depreciation policy. During 2010 the carrying value of this property was written down to £4,000,000 reflecting the continued poor state of the property market and the approaching end of the lease. Following soundings over future divestment and leasehold potential the current carrying value of £3,960,000 is considered appropriate. No independent valuation by an appropriately qualified surveyor has been obtained.

13. Subsidiaries

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

Severfield–Rowen Structures Ltd	— steel fabrication
Watson Steel Structures Ltd	— steel fabrication
Atlas Ward Structures Ltd	— steel fabrication
Fisher Engineering Ltd	— steel fabrication and erection
Steelcraft Erection Services Ltd	— erection of steel fabricated within the Group

The Company owns the whole of the issued share capital of the subsidiaries noted above.

14. Interests in Associates

The Company has an interest in two Associated Companies and a Joint Venture as follows:

Associated Companies:	Holding %	Class of capital
Kennedy Watts Partnership Ltd — CAD/CAM steelwork design	25.1	Preferred ordinary
Fabsec Ltd — development of fire beam	25.0	Ordinary
Joint Venture:		
JSW Severfield Structures Ltd — structural steelwork serving the Indian market	50.0	Ordinary

On 17 November 2008 a formal agreement was signed in India with JSW Building Systems Ltd (a subsidiary of JSW Steel Ltd 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. As set out in pages 10 to 13 the joint venture is now established and now undertaking contracts serving the Indian market.

JSW Severfield Structures Limited is registered in India, and during the year the Group invested a further £113,000 (2010: £2,884,000) in the joint venture.

Group	Goodwill £000	Share of net assets/ (liabilities) £000	Loans to Associate undertaking £000	Total £000
At 1 January 2010	570	1,092	71	1,733
Losses retained	—	(1,760)	—	(1,760)
Net assets acquired	(319)	3,203	—	2,884
At 1 January 2011	251	2,535	71	2,857
Net assets acquired	—	112	—	112
Losses retained	—	(2,522)	—	(2,522)
At 31 December 2011	**251**	**125**	**71**	**447**

The Group's share of the retained profit/(loss) for the year of the Associates is made up as follows:

	Kennedy Watts Partnership Ltd £000	Fabsec Ltd £000	JSW Severfield Structures Ltd £000	Total £000
Share of results	**1**	**22**	**(2,545)**	**(2,522)**

Summarised financial information in respect of the Group's Associates is as follows:

	2011 £000	2010 £000
Total assets	**39,122**	34,125
Total liabilities	**(37,730)**	(29,423)
Net assets	**1,392**	4,702
Group's share of Associates' net assets	**871**	2,535
Revenue	**22,567**	1,313
Loss after tax	**(4,998)**	(3,582)
Group's share of Associates' loss after tax for the period	**(2,522)**	(1,760)

During the year ended 31 December 2005 the Board reviewed the investment of long term loans outstanding from Fabsec Ltd of £614,000 and concluded that there was an element of doubt over the collection of this loan in the short to medium term. Consequently, after considering the net liabilities of Fabsec Ltd, a provision of £543,000 was made against the debt. This provision remains in place at 31 December 2011.

In 2006 Severfield–Reeve Structures Ltd entered into a 50/50 joint venture agreement with Murray Metals Group Ltd to form Steel UK Ltd, a company involved in steel buying activities. To date, both parties have continued to purchase steel through the individual companies and no trade has passed through Steel UK Ltd. The share capital invested by the Group is a nominal sum of £50. Steel UK Ltd is registered in England.

15. Inventories

	2011 £000	2010 £000
Raw materials and consumables	**3,991**	3,518
Work-in-progress	**5,094**	9,115
	9,085	12,633

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

16. Construction contracts

	2011 £000	2010 £000
Contracts in progress at balance sheet date:		
Amounts due from construction contract customers included in trade and other receivables	**78,095**	65,488
Amounts due to construction contract customers included in trade and other payables	**(299)**	(1,545)
	77,796	63,943
Contract costs incurred plus recognised profits less recognised losses to date	**569,763**	699,742
Less: progress billings	**(491,967)**	(635,799)
	77,796	63,943

17. Trade and other receivables

	2011 £000	2010 £000
Amounts due from construction contract customers (note 16):		
— Current amounts receivable in respect of progress billings	**71,104**	52,522
— Retentions due within one year	**4,133**	10,281
— Retentions due after one year	**2,858**	2,685
Total	**78,095**	65,488
Other receivables	**6,731**	3,028
Prepayments and accrued income	**3,493**	2,620
Amounts due from Associates	**842**	725
	89,161	71,861

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 83 days (2010: 70 days). No interest is charged on receivables.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Before accepting any new customer, the Group uses an external credit rating 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 credit insurance 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.

Amounts overdue at 31 December 2011 in respect of retentions were £189,000 (2010: £227,000).

18. Trade and other payables

	2011 £000	As reanalysed 2010 £000
Trade creditors	**54,332**	42,269
Other taxation and social security	**4,434**	3,795
Other creditors and accruals	**7,124**	28,084
Payments in advance (note 16)	**299**	1,545
Amounts owed to Associates	**133**	175
	66,322	75,868

The directors consider that the carrying amount of trade payables approximates their fair value.

The 2010 position has been reanalysed with amounts payable to sub-contractors, previously captured within other creditors and accruals, now being captured within trade creditors.

The average credit period taken for trade purchases (after allowance for the above reanalysis of the 2010 position), calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 62 days (2010: 52 days).

19. Provisions

	2011 £000	2010 £000
Contract legal provisions	**600**	600

Contract legal provisions relate to provisions on contracts, including fault and warranty provisions and associated legal costs, and are expected to be utilised within three years. Provision is made for the directors' best estimate of known legal claims in progress. The movement in the year comprises the following:

	£000
Balance as at 1 January 2011	600
Release of provision	(600)
Additional cost provisions	1,190
Utilisation of provision	(590)
Balance as at 31 December 2011	600

20. Deferred tax 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.

	2011 £000	2010 £000
Deferred tax liabilities	**(13,833)**	(15,969)
Deferred tax assets	**2,656**	2,770
Net deferred tax liability	**(11,177)**	(13,199)

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

20. Deferred tax liabilities continued

The net deferred tax liability is made up as follows:

	2011 £000	2010 £000
Excess capital allowances	**(9,293)**	(10,312)
Other timing differences	**139**	314
Intangible assets on acquisition of subsidiary	**(4,437)**	(5,534)
Forward exchange contracts	**26**	29
On retirement benefit obligations	**2,388**	2,304
Net deferred tax liability	**(11,177)**	(13,199)

The movement during the year in net deferred tax liability is as follows:

	2011 £000	2010 £000
At 1 January	**(13,199)**	(14,516)
Current year credit	**954**	746
Impact of reduction in future years' tax rates	**1,085**	488
Adjustment in respect of prior years	**(189)**	(40)
Deferred tax in relation to pension scheme losses	**172**	123
At 31 December	**(11,177)**	(13,199)

The deferred tax assets reducing the deferred tax liability relate to 25% (2010: 27%) of the Group's deficit on its defined benefit retirement scheme of £9,552,000, the valuation of financial instruments and other timing differences.

Unprovided deferred tax amounted to £59,000 (2010: £71,000).

The Government announced in March 2011 that it intended to reduce the rate of corporation tax from 27%, to 25% and the Finance Act 2011, which was substantively enacted on 5 July 2011, included provisions to reduce the rate of corporation tax to 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued to the lower rate of 25% in these accounts, which has resulted in a credit to the Consolidated Income Statement of £1,085,000 and the Consolidation Statement of Comprehensive Income of £191,000.

The Government has announced in March 2012 a further reduction in the rate of corporation tax to 24% with effect from 1 April 2012 and then by a further 1% each year to 22% by 1 April 2014. As this legislation was not substantively enacted by 31 December 2011, the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts. If the deferred tax assets and liabilities of the Group were all to reverse after 1 April 2014, the effect of the changes from 25% to 22% would be to reduce the net deferred tax liability by approximately £1,341,000. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax liability will be reduced.

21. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising 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.

Gearing ratio

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 gearing ratio at the year end is as follows:

	2011 £000	2010 £000
Borrowings	**(33,159)**	(18,629)
Cash and cash equivalents	**2,264**	3,589
Finance leases	**(355)**	–
Net debt	**(31,250)**	(15,040)
Equity	**132,298**	130,943
Net debt to equity ratio	**23.6%**	11.5%

Equity includes all capital and reserves of the Group attributable to equity holders of the parent. There are no externally imposed capital requirements.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	Carrying value	
	2011 £000	2010 £000
Financial assets		
Cash and cash equivalents	**2,264**	3,589
Amounts due from construction contract customers	**78,095**	65,488
Financial liabilities		
Trade creditors	**(54,332)**	42,269
Other payables	**(11,857)**	33,424
Borrowings	**(33,159)**	(18,629)
Derivative financial instruments	**(104)**	(108)
Finance leases	**(355)**	–

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 financial statements and are considered to approximate their fair value.

Cash and cash equivalents
This comprises cash held by the Group and short term deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

21. Financial instruments continued

General risk management principles

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. A formal risk assessment and management framework for assessing, monitoring and managing the strategic operational and financial risks of the Group is in place to ensure appropriate risk management of its operations. Internal control and risk management systems are embedded in the operations of the divisions.

Financial risks and management

The Group has exposure to a variety of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, which are subject to periodic review by the Board of directors.

Credit risk

The Group's primary exposure to credit risk arises from the potential for non-payment or default from construction contract debtors. The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the project. The Group's credit risk is also influenced by the general macroeconomic conditions. The Group does not have significant concentration of risk in respect of amounts due from construction contract customers at the reporting date with them being spread across a wide range of customers. Due to the nature of the Group's operations, it is normal practice for customers to hold retentions in respect of contracts completed. Retentions held by customers at 31 December 2011 were £6,991,000 (2010: £12,966,000).

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 credit insurance committee (comprising T G Haughey, P A Emerson and A D Dunsmore) convenes to determine 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 16.

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 liquidity 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.

Borrowings represent the Group's revolving credit facility from the Royal Bank of Scotland and Yorkshire Bank, a member of National Australia Bank Group, jointly which provides credit support of up to £50 million at an interest rate of between 1.90% and 2.65% above LIBOR subject to the ratio of Group net debt to EBITDA. This facility was renewed in November 2011 and is available for five years ending November 2016.

As at December 2011 £40 million was drawn down on this facility with £10 million of further facility not drawn but available. Up to £10 million of this facility is available by way of an overdraft.

Borrowings outstanding, net of associated issue costs, at 31 December 2011 amounted to £33,159,000 (2010: £18,629,000).

Liquidity risk continued

IFRS 7 requires disclosure of the maturity of the Group's remaining contractual financial liabilities. The tables below detail the Group's remaining contractual maturity for its financial liabilities and assets:

2011 Analysis

		Maturity Analysis				
	Balance sheet value	Less than 3 months	3 months to 1 year	1–2 years	2–5 years	Total
Current liabilities	£000	£000	£000	£000	£000	£000
Trade and other payables	66,322	62,566	3,692	64	—	66,322
Financial liabilities — borrowings[1]	33,159	—	—	—	33,159	33,159
Financial liabilities — finance leases	355	25	79	104	147	355
Financial liabilities — derivative financial instruments[2]	104	104	—	—	—	104
Total	**99,940**	**62,695**	**3,771**	**168**	**33,306**	**99,940**
Current assets						
Cash and cash equivalents[3]	(2,264)	(2,264)	—	—	—	(2,264)
Total	(2,264)	(2,264)	—	—	—	(2,264)
Grand total	**97,676**	**60,431**	**3,771**	**168**	**33,306**	**97,676**

2010 Analysis

Current liabilities						
Trade and other payables	75,693	52,023	21,468	1,942	260	75,693
Financial liabilities — borrowings[1]	18,629	—	—	18,629	—	18,629
Financial liabilities — derivative financial instruments[2]	108	72	36	—	—	108
Total	94,430	52,095	21,504	20,571	260	94,430
Current assets						
Cash and cash equivalents[3]	(3,589)	(3,589)	—	—	—	(3,589)
Total	(3,589)	(3,589)	—	—	—	(3,589)
Grand total	90,841	48,506	21,504	20,571	260	90,841

[1] Details of the conditions applying to these borrowings are given above.

[2] The Group has no gross settled derivative financial instruments and, therefore, solely the pay leg has been disclosed within liabilities.

[3] Cash and cash equivalents have also been disclosed in order to present a full analysis of the Group's financial assets.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

21. 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 a variety of 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	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Euro	36	97	1,426	2,065
US dollar	–	–	959	1,348
	36	97	2,385	3,413

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% 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 period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the sterling strengthens 10% against the relevant currency. For a 10% weakening of the 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	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Profit or loss and equity	**8**	414	**331**	91

The Group's sensitivity to euros has decreased in 2011 due to the reduced amount of work in the Republic of Ireland.

At present the Group's translation exposure to the Indian rupee via its Indian Joint Venture is not significant. Going forward, as the business grows, this exposure is expected to become more significant.

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover future euro and US dollar currency receipts on relevant contracts.

At 31 December 2011, the Group had forward exchange contracts held for the sale of 4.90 million euros (2010: 1.20 million euros) and 1.04 million US dollars (2010: 8.49 million US dollars) at an average exchange rate of 1.189 euros/£ (2010: 1.166 euros/£) and 1.544 US dollars/£ (2010: 1.572 US dollars/£) to the pound and maturing 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 year. A 0.5% 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% higher and all other variables were held constant, the Group's profit for the year ended 31 December 2011 and the Group's equity at that date would decrease by £180,000 (2010: £150,000). This is attributable to the Group's exposure to interest rates on its variable rate borrowings. If the £50 million facility is fully utilised the exposure increases to £250,000.

The Group's sensitivity to interest rates has increased during the current period due to the increase in the level of borrowings in the year. Current indications are that the level of Group borrowings will reduce during 2012 (reducing this exposure accordingly).

22. 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 Main Board directors and certain members of the Executive Committee) and selected senior employees will participate in the scheme. Further details are given in the Directors' Remuneration Report on pages 52 to 58. The Group recognised a total charge of £145,000 in the year (2010: charge of £nil) with a corresponding entry to reserves.

Performance Share Plan

The vesting of awards is subject to performance conditions set by the Remuneration Committee. Three outstanding awards had been granted to 31 December 2011; a further two have now expired:

- During 2009 the Remuneration Committee granted 599,151 ordinary shares of 2.5p each at Nil value to the executive directors. The vesting of these awards will be dependent on the Company's earnings per share performance over the three year period from 1 January 2009 to 31 December 2011, with the following vesting schedule to apply:

Company's EPS performance for year ending 31 December 2012	% of award vesting
Equal to less than 25.0p	0%
Equal to 30.0p	25%
Equal to 40.0p or better	100%
Between 25.0p and 30.0p	Pro rata between 0% and 25%
Between 30.0p and 40.0p	Pro rata between 25% and 100%

The Black–Scholes pricing model has been used to measure the fair value of the shares granted. The assumptions used in the model are as follows:

Share price on date of grant	£1.53*
Exercise price	Nil
Expected volatility (using historic performance)	50%
Risk-free rate	5%
Dividend	15.0p
Expected percentage options exercised versus granted	Nil
Actual life	three years

* Granted on 4 February 2009.

The Black–Scholes model produced, using the above assumptions, an annual charge of £Nil.

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

22. Share-based payments continued

- During 2010 the Remuneration Committee granted a further 793,072 ordinary shares of 2.5p each at Nil value to the executive directors. The vesting of these awards will be dependent on the Company's earnings per share performance over the three year period from 1 January 2010 to 31 December 2012, with the following vesting schedule to apply:

Company's EPS performance for year ending 31 December 2012	% of award vesting
Equal to less than 25.0p	0%
Equal to 35.0p or better	100%
Between 25.0p and 35.0p	Pro rata between 0% and 100%

The Black–Scholes pricing model has been used to measure the fair value of the shares granted. The assumptions used in the model are as follows:

Share price on date of grant	£2.04*
Exercise price	Nil
Expected volatility (using historic performance)	50%
Risk-free rate	5%
Dividend	10.0p
Expected percentage options exercised versus granted	Nil
Actual life	three years

* Granted on 5 March 2010.

The Black–Scholes model produced, using the above assumptions, an annual charge of £Nil.

- During 2011 the Remuneration Committee granted a further 720,408 ordinary shares of 2.5p each at Nil value to the executive directors. The vesting of these awards will be dependent on the Company's earnings per share performance over the three year period from 1 January 2011 to 31 December 2013, with the following vesting schedule to apply:

Company's EPS performance for year ending 31 December 2013	% of award vesting
Equal to less than 12.5p	0%
Equal to 25.0p or better	100%
Between 12.5p and 25.0p	Pro rata between 0% and 100%

The Black–Scholes pricing model has been used to measure the fair value of the shares granted. The assumptions used in the model are as follows:

Share price on date of grant	£2.45*
Exercise price	Nil
Expected volatility (using historic performance)	50%
Risk-free rate	5%
Dividend	10.0p
Expected percentage options exercised versus granted	Nil
Actual life	three years

* Granted on 14 April 2011.

The Black–Scholes model produced, using the above assumptions, an annual charge of £145,000.

Share Incentive Plan

During 2010 the Group implemented a Share Incentive Plan for Group employees. As part of the scheme 202,384 new ordinary shares of 2.5p were issued which are being held in trust for a three-year period on behalf of 973 Group employees. The vesting of these awards will be subject to continued employment for each of the relevant employees. Options are forfeited if the employee leaves the Group before the options vest. The share price on the date of issue of the shares (29 October 2010) was £2.41 and the fair value was measured based on the market price of the shares at the date of grant. The aggregate of the estimated values of the awards granted in 2010 is £488,000. A charge of £155,000 (2010: £35,000) was recognised in the current year in relation to the Share Incentive Plan.

23. Share capital

	2011 £000	2010 £000
Authorised:		
108,000,000 ordinary shares of 2.5p each	**2,700**	2,700
Issued and fully paid:		
89,251,076 ordinary shares of 2.5p each	**2,231**	2,231

There are no share options outstanding as at 31 December 2011 (2010: Nil).

On 29 March 2010, 440,816 ordinary shares of 2.5p each were issued in relation to the vesting of shares under the Company's Performance Share Plan. On 29 October 2010, 202,384 ordinary shares of 2.5p each were issued in relation to the Group employee Share Incentive Plan.

24. Other reserves

	Share-based payment reserve £000	Other reserves £000	Total £000
Balance at 1 January 2010	926	139	1,065
Share-based payments in year	(896)	–	(896)
Balance at 1 January 2011	30	139	169
Share-based payments in year	300	–	300
Balance at 31 December 2011	**330**	**139**	**469**

The movement in the share-based payment reserve comprises the following components:

	2011 £000	2010 £000
Shares issued under Share Incentive Plan	**–**	(5)
Share-based payments charge	**300**	35
Vesting of shares under Share Performance Plan	**–**	(926)
Total	**300**	(896)

25. Notes to the cash flow statement

	2011 £000	2010 £000
Operating profit from continuing operations	**8,336**	12,028
Adjustments for:		
Provision releases and charges	**–**	(2,000)
Share of results of Associates	**2,522**	1,760
Depreciation of property, plant and equipment	**4,464**	4,503
Depreciation/impairment of investment property	**40**	2,135
Pension movements	**(349)**	(317)
(Gain)/loss on disposal of property, plant and equipment	**(20)**	165
Share-based payments	**300**	35
Amortisation of intangible assets	**2,749**	2,749
Movement in valuation of derivative financial instruments	**(4)**	(39)
Operating cash flows before movements in working capital	**18,038**	21,019
(Increase)/decrease in inventories	**3,548**	(2,823)
(Increase) in receivables	**(17,301)**	(17,212)
(Decrease) in payables	**(9,592)**	(6,794)
Cash generated by operations	**(5,307)**	(5,810)
Tax paid	**(3,661)**	(5,393)
Net cash flow (after tax) from operating activities	**(8,968)**	(11,203)

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

26. Analysis of net funds/(debt)

	At 1 January 2011 £000	Cash flow £000	Borrowings £000	**At 31 December 2011 £000**
Cash at bank and in hand	3,589	(1,325)	—	**2,264**
Borrowings	(18,629)	—	(14,530)	**(33,159)**
Finance leases	—	—	(355)	**(355)**
Net funds/(debt)	(15,040)	(1,325)	(14,885)	**(31,250)**

27. Capital commitments

	2011 £000	2010 £000
Contracted for but not provided in the financial statements	**150**	361

28. Contingent liabilities

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 31 December 2011 these amounted to £40,000,000 (2010: £30,000,000). The Group has also given performance bonds in the normal course of trade.

29. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2010 and 2032.

The total future minimum lease rentals are as follows:

	2011 £000	2010 £000
Minimum lease rentals due:		
— Within one year	**1,361**	1,297
— After one year and within five years	**5,331**	5,436
— After five years	**12,308**	11,484
	19,000	18,217

The Group also leases certain items of plant and machinery and vehicles whose total future minimum lease rentals are as follows:

	2011 £000	2010 £000
Minimum lease rentals due:		
— Within one year	**1,155**	1,923
— After one year and within five years	**1,486**	1,142
— After five years	—	133
	2,641	3,198

The Group as lessor

Property rental income earned on owned properties during the year was £406,000 (2010: £399,000). The properties are expected to generate rental yields of 6.5% on an ongoing basis. The properties held have committed tenants for the next one to eight years. All operating lease contracts contain market review clauses in the event that the lessees exercise the options to renew. The lessees do not have an option to purchase the property at the expiry of the lease period.

As at the balance sheet date the Group had contracted with tenants for the following future minimum lease payments:

	2011 £000	2010 £000
— Within one year	**542**	407
— After one year and within five years	**447**	492
— After five years	**—**	21
	989	920

30. Retirement benefit schemes

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 £1,435,000 (2010: £1,458,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 December 2011, contributions of £237,000 (2010: £118,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

Atlas Ward has a defined benefit scheme which is now closed to new members.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 5 April 2008 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2011 %	2010 %
Key assumptions used:		
Discount rate	**4.90**	5.50
Expected return on scheme assets	**4.50**	5.10
Expected rate of salary increases	**—**	—
Future pension increases	**2.60**	3.20

When considering mortality assumptions a male life expectancy to 85 at age 65 has been used in 2011 (2010: 84).

Impact on scheme liabilities of changes to key assumptions:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 8.2%
Rate of mortality	Increase by 1 year	Increase by 2.6%

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2011 £000	2010 £000
Interest cost	**1,333**	1,343
Expected return on scheme assets	**(823)**	(807)
	510	536

The charge for the year has been included in administrative expenses. 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 £5,424,000 (2010: £4,227,000).

The actual return on scheme assets was a gain of £1,066,000 (2010: £773,000).

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2011

30. Retirement benefit schemes continued

The amount included in the balance sheet arising from the Group's obligations in respect of the Atlas Ward defined benefit retirement scheme is as follows:

	2011 £000	2010 £000
Present value of defined benefit obligations	**(26,800)**	(24,610)
Fair value of scheme assets	**17,248**	16,078
Deficit in scheme	**(9,552)**	(8,532)
Liability recognised in the balance sheet	**(9,552)**	(8,532)

The major categories of scheme assets as a percentage of the total scheme assets are as follows:

	2011 %	2010 %
Equities	**18.3**	22.7
Bonds and Gilts	**59.3**	8.5
Cash	**10.9**	65.6
Property	**9.5**	–
Other	**2.0**	3.2
	100.0	100.0

When investments are held in bonds and cash, the expected long term rate of return is taken to be the yields generally prevailing on such assets at the balance sheet date. A higher rate of return is expected on equity investments, which is based more on realistic future expectations than on the returns that have been available historically. The overall expected long term rate of return on assets is then the average of these rates taking into account the underlying asset portfolio of the pension plan.

Movements in the present value of defined benefit obligations were as follows:

	2011 £000	2010 £000
At 1 January	**(24,610)**	(23,459)
Interest cost	**(1,333)**	(1,343)
Actuarial (losses)	**(1,612)**	(406)
Benefits paid	**755**	598
At 31 December	**(26,800)**	(24,610)

Movements in the fair value of scheme assets were as follows:

	2011 £000	2010 £000
At 1 January	**16,078**	15,052
Expected return on scheme assets	**823**	807
Actuarial gains	**243**	(34)
Contributions from the sponsoring companies	**859**	851
Benefits paid	**(755)**	(598)
At 31 December	**17,248**	16,078

None of the scheme's assets were invested in Atlas Ward or property occupied by Atlas Ward.

The Group expects to contribute £69,000 per month to its defined benefit pension scheme in the year to 31 December 2012.

History of experience of gains and losses:

	2011	2010	2009	2008	2007
Experience gains and (losses) on scheme assets (£000)	**243**	(34)	377	(1,674)	(105)
Percentage of scheme assets	**1.4%**	(0.2%)	2.5%	(12.1%)	(0.7%)
Experience (gains) and losses on scheme liabilities (£000)	**(512)**	1,013	(223)	(198)	(373)
Percentage of the present value of scheme liabilities	**(1.9%)**	4.1%	(1.0%)	(1.0%)	(1.8%)
Total amount recognised in the Consolidated Statement of Comprehensive Income (£000)	**(1,369)**	(440)	(2,091)	(190)	285
Percentage of the present value of scheme liabilities	**(5.1%)**	(1.8%)	(8.9%)	(0.9%)	1.3%

31. Related party transactions

The remuneration of the directors, who are the key management personnel of the Group, is provided in the audited part of the Directors' Remuneration Report on pages 57 and 58.

In addition to the Company's executive 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:

	2011 £000	2010 £000
Short term employee benefits	**1,091**	1,419
Contributions into pension schemes	**121**	199
	1,212	1,618

Short term employee benefits include salary, bonus, 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 22 and relates to executive directors and members of the Executive Committee.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated undertakings are disclosed below.

During the year the Group purchased services in the ordinary course of business from Kennedy Watts Partnership Ltd at a cost of £531,000 (2010: £751,000). The amount outstanding at 31 December 2011 was £97,000 (2010: £179,000).

Loans outstanding from Fabsec Ltd at 31 December 2011 amounted to £574,000 (2010: £594,000). The directors continue to have doubts regarding the collectability of these loans and consequently a provision of £543,000 which was made in 2005 is still in place leaving a balance at 31 December 2011 of £31,000 (2010: £51,000). During the year the Group purchased services in the ordinary course of business from Fabsec Ltd at a cost of £165,000 (2010: £132,000). The amount outstanding at 31 December 2011 was £36,000 (2010: £47,000).

During the year the Group incurred additional operating costs in relation to the setting up and establishment of the joint venture in India of £1,051,000 (2010: £1,004,000). Those costs were recharged to the joint venture company during the year and £841,000 remained outstanding at 31 December 2011.

Notes to the Consolidated Financial Statements continued
Year ended 31 December 2011

32. General Information

Severfield–Rowen Plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 30. The nature of the Group's operations and its principal activities are set out on pages 4 to 9. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

At the date of authorisation of these financial statements, the following new or amended IFRS accounting standards and interpretations which have not yet been adopted by the Group were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 7 (amended) – Disclosures – transfers of financial assets;
- IFRS 9 – Financial instruments;
- IFRS 10 – Consolidated financial instruments;
- IFRS 11 – Joint arrangements;
- IFRS 12 – Disclosure of interests in other entities;
- IFRS 13 – Fair value measurement;
- IAS 1 (amended) – Presentation of items of other comprehensive income;
- IAS 12 (amended) – Deferred tax: Recovery of underlying assets;
- IAS 19 (revised) – Employee benefits;
- IAS 27 (revised) – Separate financial statements;
- IAS 28 (revised) – Investments in associates and joint ventures.

The Directors do not expect that the adoption of these Standards and Interpretations will have a material impact on the financial statements of the Group in future periods.

Five Year Summary

	IFRS				
	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Results					
Revenue	**267,778**	266,692	349,417	394,325	300,656
Underlying* operating profit	**14,193**	16,204	51,828	55,107	42,684
Underlying* profit before tax	**10,117**	15,283	50,814	52,479	42,950
Non-underlying items	**(1,366)**	(3,490)	(5,118)	(9,885)	(4,590)
Profit attributable to equity holders of Severfield–Rowen Plc	**5,822**	7,633	31,313	23,976	26,434
Assets employed					
Non-current assets	**156,940**	165,013	170,731	177,987	173,279
Net current (liabilities)	**(3,059)**	(11,739)	(12,732)	(33,355)	(35,615)
Non-current liabilities	**(21,583)**	(22,331)	(25,524)	(24,869)	(20,835)
Net assets	**132,298**	130,943	132,475	119,763	116,829
Key statistics					
Earnings per share:					
Basic — underlying*	**8.05p**	12.50p	40.00p	42.20p	35.74p
Basic	**6.52p**	8.58p	35.34p	27.06p	31.77p
Diluted — underlying*	**8.05p**	12.50p	39.80p	42.15p	35.70p
Diluted	**6.52p**	8.58p	35.16p	27.02p	31.73p
Dividends per share	**5.00p**	7.50p	15.00p	20.00p	20.00p
Dividend cover (times) — underlying* basis	**1.6**	1.3	2.7	2.1	1.8
Share price — high	**333.50p**	313.20p	243.00p	460.00p	620.00p
— low	**150.00p**	177.20p	119.50p	131.25p	344.75p

Key statistics for prior years have been restated to reflect the 4:1 share capital in October 2007.

* The basis of stating results on an underlying basis is set out on page 1.

FINANCIAL CALENDAR

Preliminary announcement of full year results	20 March 2012
Publication of Annual Report	30 April 2012
Annual General Meeting	13 June 2012
Payment of final dividend	21 June 2012
Announcement of interim results (provisional)	21 August 2012

PROJECT
Stratford City Link Footbridge

LOCATION
London

COMPANY ACCOUNTS

CONTENTS

TRANSPORT, BRIDGES & CAR PARKS SECTOR

PROJECT Blackfriars Bridge Deck
LOCATION London

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PROJECT Terminal 2B Heathrow Airport
LOCATION London

PROJECT Dublin Airport Terminal 2
LOCATION Dublin

PROJECT Gatwick Airport North Terminal Extension
LOCATION London

Independent Auditor's Report to the Members of Severfield-Rowen Plc

We have audited the parent company financial statements of Severfield–Rowen Plc for the year ended 31 December 2011 which comprise the Company Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Other Matter

We have reported separately on the Group financial statements of Severfield–Rowen Plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Simon Manning
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom
27 April 2012

Company Balance Sheet

31 December 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	4	**61,376**	62,064
Intangible assets		**481**	–
Investments	5	**100,729**	106,117
		162,586	168,181
Current assets			
Debtors	6	**54,305**	49,426
Cash at bank and in hand		**–**	41
		54,305	49,467
Creditors – amounts falling due within one year	7	**163,543**	160,523
Net current liabilities		**109,238**	111,056
Total assets less current liabilities		**53,348**	57,125
Capital and reserves			
Called-up share capital	9	**2,231**	2,231
Share premium account	10	**46,152**	46,152
Other reserves	11	**319**	55
Profit and loss account	12	**4,646**	8,687
Equity and total shareholders' funds		**53,348**	57,125

The financial statements were approved by the Board of directors on 27 April 2012 and signed on its behalf by:

T G Haughey
Director

A D Dunsmore
Director

Severfield–Rowen Plc
Registered in England No: 1721262

Notes to the Company Financial Statements

Year ended 31 December 2011

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable UK accounting standards (UK GAAP).

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt a going concern basis in preparing the financial statements. The key factors considered by the directors in making the statement are set out within the Financial Review on pages 25 to 26.

Profit and loss account

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

Cash flow

The Company is exempt from the requirements of Financial Reporting Standard No. 1 (Revised) "Cash Flow Statements".

Tangible fixed assets

Freehold and long leasehold land is held at cost and not depreciated.

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

Freehold buildings	1% straight-line

Intangible fixed assets

Intangible fixed assets relate to capitalised software costs.

These are in relation to systems that as at 31 December 2011 were in the commissioning phase and accordingly, to date, no amortisation has been charged.

Going forward amortisation will be applied over the following periods:

Software costs	7 years

Investments

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

Taxation

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which they are included in financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Share-based payments

Share-based payments are accounted for as described in the Group accounting policies on page 72.

Related party transactions

The Company has taken advantage of the exemption granted by paragraph 3(b) of FRS 8 (Related Party Disclosures) not to disclose transactions with other wholly owned Group companies.

2. Operating profit

The auditor's remuneration for audit services to the Company was £16,000 (2010: £16,000).

The Company has no employees other than the directors whose remuneration was borne by subsidiary undertakings.

3. Profit of the Company

The Company has taken advantage of Section 408 of the Companies Act 2006 and consequently its profit and loss account is not presented as part of these accounts. The loss of the Company for the financial year amounted to £471,000 (2010 profit: £1,385,000). Dividends paid and proposed are disclosed in note 8 to the Consolidated financial statements.

4. Tangible fixed assets

	Freehold and long leasehold land and buildings £000	Motor Vehicles	Total
Cost			
At 1 January 2011	63,890	298	64,188
Additions	—	161	161
Disposals	(264)	(165)	(429)
At 31 December 2011	**63,626**	**294**	**63,920**
Depreciation			
At 1 January 2011	2,005	119	2,124
Provided in year	455	62	517
Disposals	—	(97)	(97)
At 31 December 2011	**2,460**	**84**	**2,544**
Net book value			
At 31 December 2010	61,885	179	62,064
At 31 December 2011	**61,166**	**210**	**61,376**

The Company's freehold and long leasehold land and buildings includes those which are occupied and used by some of the Company's subsidiary undertakings.

5. Investments

	2011 £000	2010 £000
Investment in Subsidiaries	**94,754**	100,254
Investment in Associated Companies	**535**	535
Investment in Joint Ventures	**5,440**	5,328
	100,729	106,117

Notes to the Company Financial Statements continued
Year ended 31 December 2012

5. Investments continued

Investment in subsidiaries

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

Severfield–Rowen Structures Ltd	— steel fabrication
Watson Steel Structures Ltd	— steel fabrication
Atlas Ward Structures Ltd	— steel fabrication
Fisher Engineering Ltd	— steel fabrication and erection
Steelcraft Erection Services Ltd	— erection of steel fabricated within the Group

The Company owns the whole of the issued share capital of the subsidiaries noted above.

Following the annual testing for impairment the carrying value of the Company's investment in Action Merchants Limited, the holding company for Fisher Engineering Limited, was impaired by £5,500,000 (2010: £7,300,000) reducing the carrying value accordingly.

	£000
Cost	
At 1 January 2011 and 31 December 2011	**107,554**
Provision for impairment	
At 1 January 2011	(7,300)
Additional amounts provided	(5,500)
At 31 December 2011	**(12,800)**
Net book value	
At 31 December 2011	**94,754**
At 31 December 2010	100,254

Investment in Associates

The Company has an interest in Associated Companies as follows:

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

	£000
Cost	
At 31 December 2010 and 31 December 2011	**535**

Investment in Joint Ventures

On 17 November 2008 a formal agreement was signed in India with JSW Building Systems Ltd (a subsidiary of JSW Steel Ltd 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 and, during the year, the Company invested indirectly £113,000 (2010: £2,884,000) in the joint venture. The investment is carried in Severfield–Rowen Mauritius Limited, a wholly owned subsidiary of the Company.

	£000
Cost	
At 1 January 2011	5,328
Invested in year	112
At 31 December 2011	**5,440**

6. Debtors

	2011 £000	2010 £000
Other debtors	**1,610**	659
Amounts owed by subsidiary undertakings	**52,207**	47,872
Deferred tax asset (note 8)	**189**	115
Corporation tax recoverable	**299**	780
	54,305	49,426

7. Creditors — amounts falling due within one year

	2011 £000	2010 £000
Bank borrowings	**40,693**	29,704
Other creditors and accruals	**3,074**	2,425
Amounts owed to subsidiary undertakings	**119,776**	128,394
	163,543	160,523

Borrowings represent the Group's revolving credit facility from the Royal Bank of Scotland and National Australia Bank jointly as disclosed in note 21 to the Consolidated financial statements. The facility is available until November 2016.

8. Deferred tax

	Amount provided		Amount unprovided	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Excess capital allowances	**(77)**	(115)	**—**	—
Short term timing differences	**(112)**	—	**—**	—
	(189)	—	**—**	—

Deferred Taxation — Movement for the year

	£000
At 1 January 2011 (note 6)	(115)
Current year credit	(89)
Impact of reduction in future years' rate	15
At 31 December 2011 (note 6)	**(189)**

9. Share capital

	2011 £000	2010 £000
Authorised:		
108,000,000 ordinary shares of 2.5p each	**2,700**	2,700
Issued and fully paid:		
89,251,076 ordinary shares of 2.5p each (2010: 89,251,076)	**2,231**	2,231

There are no share options outstanding as at 31 December 2011 (2010: Nil).

Notes to the Company Financial Statements continued

Year ended 31 December 2012

10. Share premium account

	2011 £000	2010 £000
Balance at 1 January and 31 December	**46,152**	46,152

11. Other reserves

	2011 £000	2010 £000
Balance at 1 January	**55**	951
Share-based payment movements in year	**300**	(896)
Other reserve movement	**(36)**	–
Balance at 31 December	**319**	55

The movement in the share-based payment reserve comprises the following components:

	2011 £000	2010 £000
Shares issued under Share Incentive Plan	**–**	(5)
Share-based payments	**300**	35
Vesting of shares under Share Performance Plan	**–**	(926)
	300	(896)

12. Profit and loss account

	2011 £000	2010 £000
Balance at 1 January	**8,687**	15,270
Dividends paid	**(3,570)**	(8,883)
Net profit/(loss) for the year	**(471)**	1,385
Share-based payments	**–**	915
Balance at 31 December	**4,646**	8,687

13. Movement in shareholders' funds

	2011 £000	2010 £000
Balance at 1 January	**57,125**	64,588
Dividends paid	**(3,570)**	(8,883)
Net profit/(loss) for the year	**(471)**	1,385
Share-based payments	**–**	915
Increase in share capital	**–**	16
Other reserve movement	**(36)**	–
Movement in share-based payment reserve	**300**	(896)
Balance at 31 December	**53,348**	57,125

14. Capital commitments

	2011 £000	2010 £000
Contracted for but not provided in the financial statements	**127**	265

15. Contingent liabilities

The Company has provided an unlimited guarantee to secure any bank overdrafts and loans of all other Group companies. At 31 December 2011 these amounted to £Nil (2010: £Nil).

Severfield-Rowen Plc

- Severfield–Rowen Structures
- Watson Steel Structures
- Atlas Ward Structures
- Fisher Engineering
- JSW Severfield Structures
- Severfield–Reeve International (Project Office, Abu Dhabi)
- Steelcraft Erection Services
- Engineering Construction Training

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OUR OLYMPIC LEGACY

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