INDEPENDENT AUDITOR'S REPORT

to the members of Severfield plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Severfield plc for the year ended 31 March 2017 set out on pages 109 to 145 and 147 to 153. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview		
Materiality: Group financial statements as a whole		£900,000 (2016: £650,000) 5.0% (2016: 4.9%) of Group profit before tax (2016: profit before tax, normalised to exclude non-underlying items)
Coverage		98% (2016: 99%) of Group profit before tax
Risks of material misstatement		**vs 2016**
Recurring risks	Carrying value of construction contracts balance, and revenue and profit recognition in relation to construction contracts	←→
	Carrying value of goodwill and investment in Indian joint venture	←→

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Carrying value of construction contracts balance, revenue and profit recognition in relation to construction contracts Revenue: £262.2m (2016: 239.4m) Construction contacts: £59.1m (2016: £44.5m) *Refer to page 75 (audit committee report), pages 116 and 121 (accounting policies) and note 16 (financial disclosure).*	**Subjective estimate** The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract balance as well as the revenue and profit recognised are based on estimates of costs to complete and level of unagreed variations and judgement as to the recoverability of those variations. Estimated contract costs, and as a result revenues, can be affected by a variety of uncertainties that depend on the outcome of future events resulting in revisions throughout the contract period.	Our procedures included: • **Our control assessment:** Testing the Group's controls over the contract outcome evaluations (contract valuation) through inspection of a sample of available meeting minutes throughout the year and subsequent to the year-end. At these meetings the Group reviews performance on a contract-by-contract basis with a key focus on costs to date, costs to complete, forecasted margin, certified work to date and agreed and unagreed variations. We assessed if the appropriate individuals attended the meetings and that the estimated final contract price and costs to complete forecasts for all contracts were discussed, challenged and the contract outcome evaluations updated as appropriate. • **Accounting analysis:** Identifying contracts with risk indicators including: low margin or loss-making contracts, high values of unagreed variations and large carrying value of amounts receivable on contracts. For these contracts we agreed the year-end construction contract balance to the cash recovered post period end and considered the work certified to date. • **Accounting analysis:** Challenging the Group in respect of construction contract balances in the sample identified, where cash has not been received or work has not been certified post year-end, by obtaining correspondence with the clients to corroborate the position. • **Accounting analysis:** Assessing the forecasted cost to complete in the sample identified by considering contract performance and costs incurred post year-end along with discussions and challenge of contract managers who are responsible for the contract. • **Retrospective review:** Assessing the forecasting accuracy of contract margins by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved.

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2. Our assessment of risks of material misstatement continued

	The risk	Our response
Carrying value of goodwill and investment in Indian joint venture Goodwill: £54.7m (2016: £54.7m) Investment in Indian joint venture: £4.6m (2016: £4.5m) *Refer to page 75 (audit committee report), pages 114 to 122 (accounting policies) and notes 11 and 14 (financial disclosure)*	**Subjective valuation** The carrying value of goodwill depends on assumptions of future financial performance which inherently contain an element of judgement and uncertainty. In addition, the investment in the joint venture is at risk of impairment due to its recent performance. Significant areas of judgement include sales growth rates, operating margins and the discount rate applied to future cash flows.	Our procedures included: • **Data testing:** Considering the Group's impairment model for integrity and internal consistency with board approved budgets and forecast. • **Benchmarking assumptions:** We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected growth and discount rates. • **Accounting analysis:** Performing sensitivity analysis on key assumptions to understand their impact on headroom. • **Retrospective review:** Considering the Group's historical budgeting accuracy, by assessing actual performance against budget. • **Assessing transparency:** We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and investment in the joint venture.

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

Materiality for the Group financial statements as a whole was set at £900,000 (2016: £650,000), determined with reference to a benchmark of Group profit before tax, of which it represents 5.0 per cent (2016: 4.9 per cent of Group profit before tax, normalised to exclude non-underlying items).

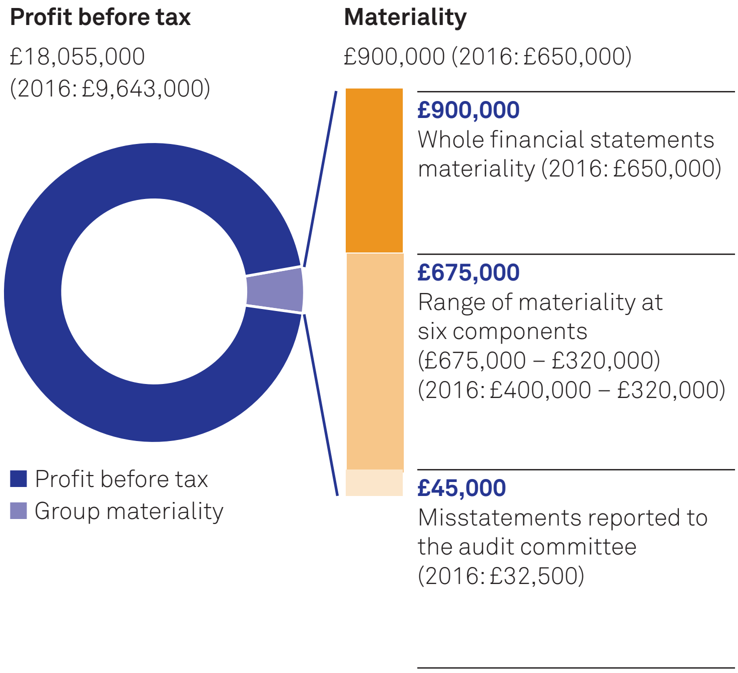
We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £45,000 (2016: £32,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

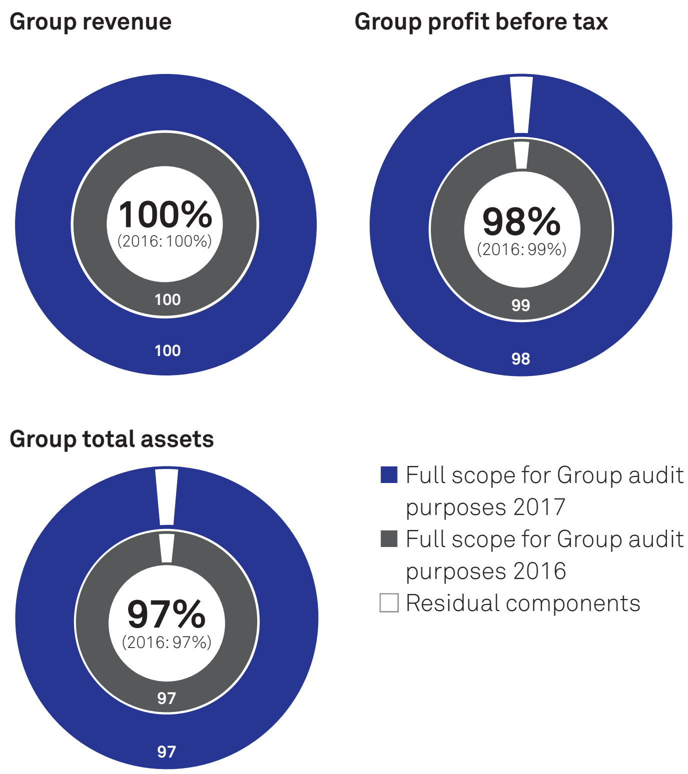
Of the Group's six (2016: six) reporting components, we subjected five (2016: five) to full scope audits for Group purposes and one (2016: one) was subject to procedures at a Group level.

The work on one of the six components (2016: one of six) was performed by component auditors and the rest by the Group team.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team also approved the component materialities ranging from £320,000–£675,000 (2016: £320,000–£400,000) having regard to the mix of size and risk profile of the Group across the components.

The Group team visited one component location in India and held meetings with the component audit team. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditors.





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to the members of Severfield plc only

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

In our opinion:

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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

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

- the directors' viability statement on page 41, concerning the principal risks, their management, and based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 31 March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

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

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

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 41 and 80, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on page 67 relating to the Company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Adrian Stone (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor

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14 June 2017