

How the business manages risk

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

The Group's ongoing operations and growth plans are subject to a number of different risks and uncertainties. Although we cannot eliminate such risks and uncertainties completely, we have established risk and internal control systems and procedures to mitigate their impact and the likelihood of them occurring.

We have continued to develop and improve our approach to business risk management during the course of the year in response to changes in the business and operating environment. We maintain close working relationships between Group management and the businesses to understand and address risks.

We strive to ensure that risk management is embedded into day-to-day business processes and operations such that it is effective at all levels of the organisation; this ensures that potential risks are identified at an early stage and mitigations are put in place to manage such risks. Through the risk management process and communication, there is a robust, periodic risk review involving Group management and all businesses.

The board formally reviews risks and mitigations for the Group and each of the businesses on a biannual basis. The review focuses on identifying potential risks that could significantly impact the business and considers in detail the various impacts of the risks and the mitigations in place.

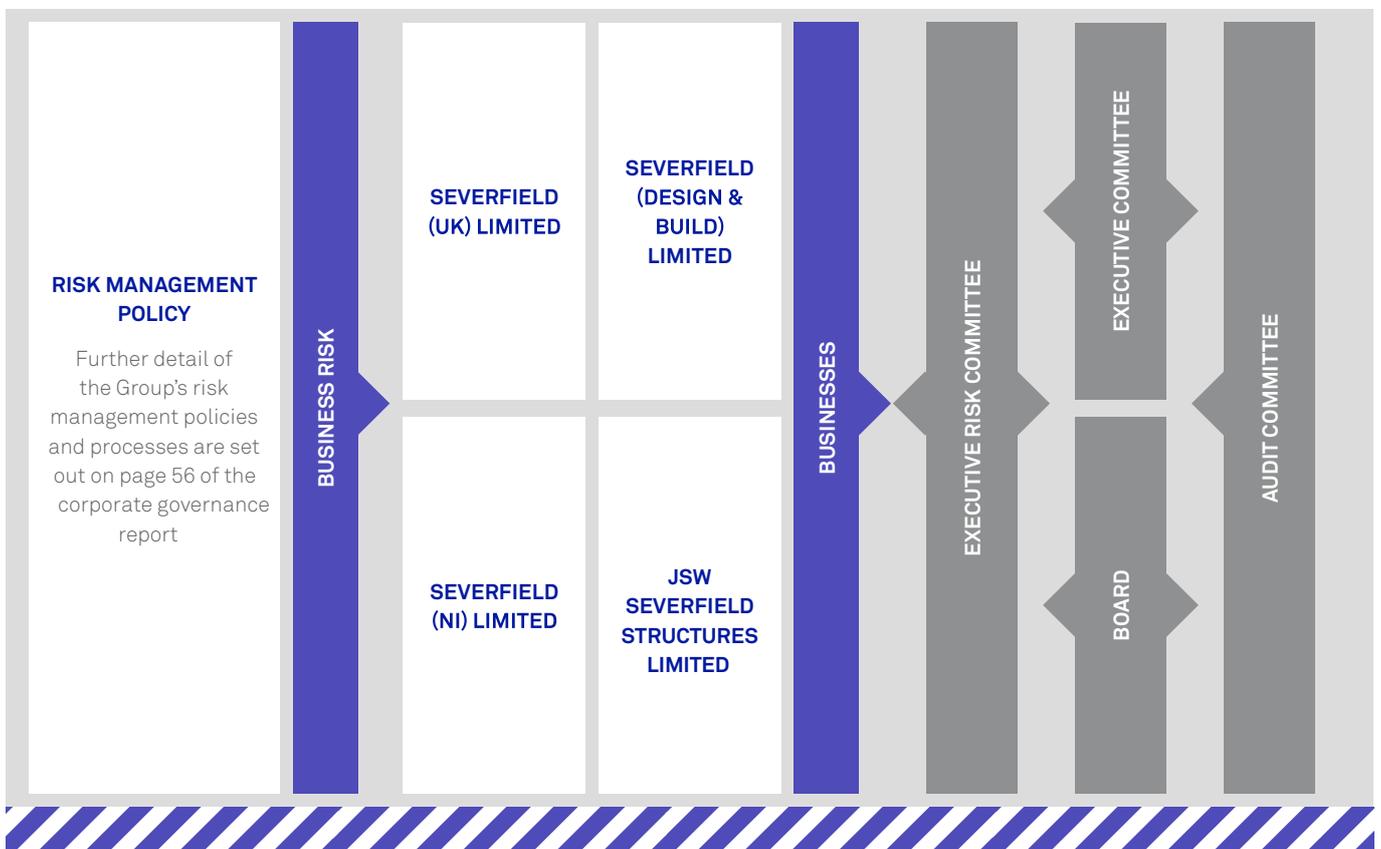
The board has identified the following principal risks and uncertainties which have the potential to impact the Group's profitability and ability to achieve its strategic objectives.



Find out more about **strategy** on pages 18 and 19



Find out more about **risks** on pages 56 and 57



RISK / EXPLANATION	TREND	DESCRIPTION / IMPACT	MITIGATION
<p>Commercial and market environment</p> <p>The UK construction market, although showing some signs of recovery, remains impacted by the continued and residual effects of the global economic downturn, placing significant pressure on all parts of the supply chain, from end customers through to material suppliers and subcontractors.</p> <p>Through our different businesses we seek to win profitable work through successful tender processes. This success depends on our ability to identify, price and execute appropriate contracts to maintain a profitable order book.</p>	 Decreased risk	<p>Challenging trading conditions and lack of growth</p> <p>Uncertain demand 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.</p> <p><i>A significant fall in construction activity could impact revenues, profits and the ability to recover overheads resulting in the need for further restructuring. Cash generation could also be impacted resulting in breaches of banking facilities.</i></p>	<p>Reorganisation of business and strengthening of senior management to improve process and discipline around contract risk assessment, engagement and execution.</p> <p>Close engagement with both customers and suppliers and monitoring of payment cycles.</p> <p>Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts.</p> <p>Continuing use of credit insurance to minimise impact of customer failure.</p>
	 Decreased risk	<p>Inadequate contract pricing and cost management</p> <p>Failure to accurately estimate and evaluate the contract risks, costs to complete, contract duration and the impact of price increases could result in a contract being mispriced.</p> <p><i>Failure to achieve targeted profitability of contracts resulting in a reduction in Group margins.</i></p>	<p>Business planning identifies the markets and clients that the Group will target.</p> <p>Estimating processes are in place with approvals by appropriate levels of management.</p> <p>Tender settlement processes are in place to give senior management regular visibility of major tenders.</p> <p>Established system of monthly reviews to measure and report contract progress and estimated out-turns, including contract variations.</p> <p>Use of delegated authorities to ensure appropriate contract tendering and acceptance.</p>
	 Decreased risk	<p>Failure to mitigate onerous contract terms</p> <p>Failure to appropriately assess the contractual terms or the acceptance of a contract with unfavourable terms could result in poor contract delivery, poor understanding of contract risks and legal disputes.</p> <p><i>Loss of profitability on contracts as costs incurred may not be recovered and potential reputational damage.</i></p>	<p>Contract acceptance procedures are in place including legal and commercial review of terms by the new Group legal director.</p> <p>Work performed under standard terms and conditions as appropriate.</p> <p>Plans for specific types of work are agreed in advance by individual businesses allowing management to decline work where the contract terms or pricing are not considered economic.</p> <p>Use of delegated authorities to ensure appropriate contract tendering and acceptance.</p>
	 Risk unchanged	<p>Reliance on key suppliers</p> <p>Failure of a key supplier would result in disruption to the Group's operations and the increased cost of finding a suitable replacement.</p> <p><i>Loss of profitability through increased costs and potential reputational damage as a result of project delays.</i></p>	<p>Strong relationships maintained with key suppliers including a programme of regular meetings and reviews.</p> <p>The Group has no single sourcing agreements in place.</p> <p>Contingency plans developed to address supplier and subcontractor failure.</p> <p>Contracts only entered into with suppliers and subcontractors after review at the appropriate level of delegated authority.</p>

How the business manages risk continued

RISK / EXPLANATION	TREND	DESCRIPTION / IMPACT	MITIGATION
<p>People</p> <p>The Group has established a market leading position over many years due in large part to the experience and skills of its key people.</p>	 <p>Increased risk</p>	<p>Recruitment and retention of talented people</p> <p>As the market starts to recover, it can become increasingly difficult to recruit capable people and retain key employees, especially those targeted by competitors.</p> <p><i>Loss of key people could adversely impact the Group's existing market position and reputation. Insufficient growth and development of its people and skillsets could restrict its growth ambitions both in the UK and overseas.</i></p>	<p>An improved talent review process is planned for 2014/15.</p> <p>Progression and succession planning schemes will be rolled out at each business to ensure immediate and future replacements are identified and developed.</p> <p>Remuneration policy is regularly reviewed to ensure that it is competitive and strikes the appropriate balance between short and long-term rewards and incentives.</p> <p>Skills gaps are continually identified and actions put in place to bridge these by training, development or external recruitment.</p>
<p>Interruption to fabrication facilities</p> <p>The Group's production facilities are at the core of its business and the Group relies on their smooth continued operation.</p>	 <p>Risk unchanged</p>	<p>Inadequate business continuity planning</p> <p>Every business faces the potential risk of its operations being impacted by disruption due to loss of supply, industrial disputes, failure with technology, unplanned outages and physical damage as a result of fire or other such event.</p> <p><i>Interruption could impact both the Group's performance on existing contracts and its ability to bid for future contracts, thereby impacting its financial performance.</i></p>	<p>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.</p> <p>Detailed maintenance programmes are in place at each of the Group's facilities.</p> <p>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.</p> <p>Appropriate levels of business interruption insurance cover are maintained and reviewed regularly with the assistance of independent advisers and brokers.</p>

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<p>Indian joint venture</p> <p>The Group has invested in a joint venture in India, where the growth prospects are believed to be substantial.</p>	 Increased risk	<p>Performance of the joint venture</p> <p>The growth, management and performance of the business is a key element of the Group's overall performance. Effective management of the joint venture is therefore important to the Group's continuing success.</p> <p><i>Failure to identify, understand and evaluate the risks of operating in India could lead to financial loss, reputational damage and a drain on cash resources to fund the operations.</i></p>	<p>Robust joint venture agreement.</p> <p>Two members of the Group's board of directors are members of the joint venture board.</p> <p>Strong governance in place at the joint venture.</p> <p>Regular formal and informal meetings held with both joint venture management and joint venture partners.</p> <p>Joint venture was refinanced in late 2013 and the management structure was strengthened during the year.</p> <p>Contract risk assessment, engagement and execution process now embedded.</p>
<p>Health and safety</p> <p>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.</p>	 Risk unchanged	<p>Serious health and safety incident</p> <p>Construction activities can result in injury or death to employees, leading to the potential for legal proceedings, regulatory intervention, project delays and, where at fault, potential loss of reputation.</p> <p><i>Loss of profitability and ultimately exclusion from future business.</i></p>	<p>Established safety systems, site visits, monitoring and reporting, and detailed health and safety policies and procedures, are in place across the Group.</p> <p>Thorough and regular employee training programmes under the leadership of the new Group SHE director.</p> <p>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.</p> <p>Priority board review of ongoing performance.</p> <p>Regular reporting of, and investigation and root cause analysis of, accidents and near misses.</p> <p>Achievement of challenging health and safety performance targets is a key element of management remuneration.</p>
<p>Information technology (IT)</p> <p>The Group's complex and interdependent IT systems support the effective and efficient running of the business. Ensuring our systems are reliable strengthen the day-to-day operations of the Group.</p>	 Risk unchanged	<p>IT failure or disruption</p> <p>With insufficient IT disaster recovery planning, cyber-attack or property damage could lead to IT disruption with resultant loss of data, loss of system functionality and business interruption.</p> <p><i>Prolonged or major failure of IT systems could pose significant risk to the ability of the Group to operate and trade, thereby impacting its financial performance.</i></p>	<p>IT is the responsibility of a central function which manages the majority of the systems across the Group. Other IT systems are managed locally by experienced IT personnel.</p> <p>Significant investments in IT systems are subject to board approval.</p> <p>Data protection and information security policies are in place across the Group, including anti-virus software, off-site and on-site backups, storage area networks, software maintenance agreements and virtualisation of the IT environment.</p> <p>Cyber-crimes and associated IT risks are assessed on a continual basis.</p>