MANAGING OUR RISK

Effective risk management is essential to the achievement of our key objective and strategic initiatives. Risk management controls are integrated across all levels of our business and operations.

The Group operates a system of internal control of risk management and operates a risk management framework. The long-term success of the Group depends on the continual review, assessment and control of the key business risks it faces. To enable shareholders to appreciate what the business considers are the main operational risks, they are listed below.

Read about the **Risk Management Framework** on page 60

Risk and description	Mitigation	Change during the year
Health & Safety **Inherent risk within construction activity**	— Priority consideration of all Group and subsidiary board meetings — Robust training, policies, procedures and monitoring — OHSAS 18001 approved Health & Safety management system — Internal independent Health & Safety department that conducts regular random inspections — Routine Director and Senior Manager safety inspections — Regular externally reviewed mock incidents	↔
Construction **Increased cost and lower availability of skilled labour, subcontractors and building materials**	— Quality training given to grow personnel internally — Pool of approved and checked subcontractors subject to regular review — Group purchasing arrangements and preferred supplier agreements — Forward planning to increase ordering times and availability of materials	↑
Environmental **The Group is inextricably linked to the property sector and environmental considerations are paramount to our success. Stricter environmental legislation will increase development and house building costs and therefore could impact on profitability if capital and land values do not increase to reflect more efficient energy performance**	— Our interaction with the environment and the agencies that have an overarching responsibility has to be positive at all times in order to achieve best value — Construction environmental risk is managed through the operation of an ISO 14001 approved environmental management system — Internal design helps mitigate environmental planning issues — Record of awards given in respect of good safety and environmental performance — Environmental impacts addressed at main Board and each subsidiary company board meeting	↔
Development **Not developing marketable assets for both tenants and the investment market on time and cost effectively**	— Monthly performance meetings — Defined appraisal process — Monitoring of property market trends — Highly experienced development team — Flexible to market trends in development requirements — Diverse range of sites within the portfolio	↓

Risk and description	Mitigation	Change during the year
Development **Rising market yields on completion making development uneconomic**	— Active asset management — Monitoring property market trends — Only develop when yields are stable — Development subject to a 'hurdle' profit rate — Larger developments pre-sold	↓
Development **Construction and tenant risk which is not matched by commensurate returns on development projects**	— Construction projects, including returns and cash flows, are monitored monthly by subsidiary company management teams — Seek high level of pre-lets prior to authorising development — Development subject to a 'hurdle' profit rate — Shared risk with landowners where applicable	↓
Land **The inability to source, acquire and promote land would have a detrimental effect on the Group's strategic land bank and income stream**	— Monthly operational meetings detail land owned or under control, new opportunities and status of planning — Each land acquisition is subject to a formal appraisal process which must exceed the Group-defined rate of return and is subject to approval by the Group's Executive Directors — Land bank of nearly 12,000 acres with aspiration to grow further — Finance available to support speculative land purchases — Well respected name within the industry that demonstrates success — Long-established contact base — Large land bank can help smooth short-term fluctuations	↓
Land **A dramatic change in house builder funding sentiment and demand for housing can have a marked change on the demand and pricing profile for land**	— The Group's policy is to only progress land which is deemed to be of high quality and in prime locations — The business is long-term and is not seriously affected by short-term events, or economic cycles — We recognise cyclicality in our long-term plans and operate with a relatively low level of debt — Greenfield land is probably the most sought-after land to build upon — Long-term demographics show growing trend; therefore demand for land will follow — House builders do have very good land banks and can be choosey regarding what they buy and will target prime locations	↔
Planning Changes in Government or Government policy towards planning policies could impact on the speed of the planning consent process or the value of sites	— Large land bank can help smooth short-term fluctuations — A high profit margin can be achieved when successful — No revaluations are taken on land through the planning process; therefore, though profits may be smaller if site values fall, the Group should still achieve a good profit margin on sale	↔

Key: ↑ Rise ↓ Fall ↔ Remain

Read about **Our Strategy** on page 16

Read about our **Business Model** on pages 10 to 13

Read about **Health and Safety** on page 43

RISKS AND UNCERTAINTIES CONTINUED

Risk and description	Mitigation	Change during the year
Planning **Increased complexity, cost and delay in the planning process may slow down the project pipeline**	— The Group's highly skilled in-house technical and planning teams monitor changes in the market and in the planning process and react accordingly to ensure that planning consents are achieved in the most cost-effective and timely manner, whilst ensuring a broad spread of developments remain in the planning system at any one time — Good local knowledge assists in bringing forward land, and contractual agreements ensure land can be brought to market at an appropriate time — Long-established successful operator — Inventory of approximately 165 sites in progress throughout the UK — Sites are typically greenfield and of a high quality	↔
Economic **The Group operates solely in the UK and is closely allied to the real estate, house building and construction sectors. A strong economy with strong tenant demand is vital to create long-term growth in rental and asset values, whilst at the same time creating a healthy market for the construction and plant hire divisions**	— Strong Statement of Financial Position with low gearing and long-term shareholder base means that we can ride out short-term economic fluctuations — Different business streams increase the probability that not all of them are in recession at the same time — The City recognises the Group is a cyclical business and understands performance will be affected by economic cycles — Directors and shareholders share a common goal of less aggressive leveraging than some competitors — Current market conditions are supportive	↑
Personnel **Attraction and retention of the highest calibre people with the appropriate experience is crucial to our long-term growth in the highly competitive labour markets in which the Group works**	— This risk is increased when unemployment falls and labour markets contract — Good long-term employment record indicates that good people stay within the Group — The Group encourages equity ownership — Proven record of sharing profits with staff — Succession planning is an inherent part of management process	↑
Treasury **The lack of readily available funding to either the Group or third parties to undertake property transactions can have a significant impact on the marketplace in which the Group operates**	— The Group has agreed three-year facilities with its banking partners, which run to February 2020 and are backed by investment property assets — Detailed cash requirements are forecast up to 15 months in advance and reviewed and revised monthly — Short-term positive cash balances are placed on deposit — Group funding levels are prudent in relation to the Statement of Financial Position — As a PLC, access to equity funding is available should this be required	↔
Investments **Identifying and retaining assets which have the best opportunity for long-term rental and capital growth, or conversely, selling those assets where capital values have been maximised**	— This is an ongoing process with regular reviews of the assets and market conditions to achieve best value — Broad range of development opportunities to choose from — Investment assets are seen as tradeable if required — We have a record of recycling assets into funding for new developments	↔

Risk and description	Mitigation	Change during the year
Interest rates Significant upward changes in interest rates affect interest costs, yields and asset prices and reduce demand for commercial and residential property	— Statement of Financial Position strength allows the Group to warehouse sites in tough markets — Long-term nature of land business helps smooth short-term interest rate impacts — Interest cover of over 30 times; gearing relatively low and therefore significant scope to deal with interest rate rises	↓
Counterparty Depends on the stability of customers, suppliers, funders and development partners to achieve success	— The Group pays particular attention to the financial strength of counterparties before contracting with them in order to mitigate financial exposure	↔
Pension The Group operates a defined benefit pension scheme which is closed to new members. Whilst the Trustees have a prudent approach to the mix of both return-seeking and fixed-interest assets, times of economic instability can have an impact on those asset values with the result that the reported pension deficit increases. Furthermore, the relationship between implied inflation and long-term gilt yields has a major impact on the pension deficit and the business has little control over those variables	— Operation of Trustee approved Recovery Plan — Whilst pension schemes are a long-term commitment, regulations require the Group to respond to deficits in the short-term — Move out of gilts will provide a cushion should rates rise — Risk mitigated by move to quoted investments including pooled diversified growth funds — Treat pension scheme as any other business segment to be managed — Strong working relationship maintained between Company sponsor and pension Trustees — Use good quality external firms for actuarial and investment advice	↔
UK exit from European Union The announcement of the UK exit from the European Union resulted in exchange rate fluctuations and material price inflation. As we move through the process we could see further price inflation, reduced market confidence, restrictions to the supply of labour and increased economic uncertainty	— A large proportion of raw materials are sourced from within the UK — Strong history of performance and close working relationships with customers encourages confidence — Many subcontractors utilise locally sourced labour — Weakness in sterling encourages outside investment — Markets currently remain strong and the Group is UK focused	↑
Cyber Security Unauthorised access to systems, hacking, malware and distributed denial of service could all lead to data loss, business disruption, reputational damage or financial loss	— Employee awareness updates distributed routinely — Use of software and security products and regular updates thereof — Detailed disaster recovery plans — External vulnerability and threat management review	↑

Key: ↑ Rise ↓ Fall ↔ Remain

RISKS AND UNCERTAINTIES CONTINUED

Going concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Viability statement Introduction

Henry Boot PLC's business model and strategy can be found on pages 10 and 16 in the Financial Statements. These documents are central to the understanding of the long-term business model and we have operated the current business model successfully over the past 15 years, and have a 130-year unbroken history. The nature of the Group's activities tends to be very long-term, especially in the land promotion business, and the Group's strategy and experience in this sector has been built up over many years. Over the last 11 years, the Group has reported an average profit before tax of £24m per annum, added almost £85m to net assets (an increase of some 55%) and paid 53p per share in dividends, all from the trading segments it now operates, and at no stage in the downturn, between 2008 and 2010, did the Company make a trading loss. Analyst forecasts for the viability assessment period indicate a positive continuation of these financial results, underpinned by the commercial development and land opportunities we already control.

The assessment process

The Group's prospects are assessed through an annual budgeting process led by the main Board Executive Directors and the boards of the individual subsidiaries. A detailed annual budget is prepared prior to the commencement of the current financial year and re-forecasting takes place each month throughout the financial year within each business and is consolidated at Group level. The two succeeding years are also forecast, using predominately known and controlled opportunities, to assess the longer term viability of the Group. As a largely deal-driven business, it is considered inappropriate to attempt to forecast further out via an extrapolation of years one to three, albeit asset trading and development is central to the Group's long-term strategy. Stress testing these forecasts highlights that if economic conditions worsen and developments and land sales do not happen as envisaged, we invest and borrow less and, whilst profitability is lower, the stable construction segment income and investment property rentals cover most of our overhead costs. Whilst we do not foresee it, only a very long-term, unprecedented lack of liquidity in the UK residential and commercial property markets would cause any threat to the viability of the Group.

Assessment of viability

The long-term strategy, the annual budget and the two-year forecasts reflect the Directors' best estimates of the future prospects for the business. We have also reviewed a number of potential viability risks to the Group and consider that the following represent scenarios which, if not carefully managed, could impact on the Group's viability:

Firstly, overtrading developments in progress with the attendant increase in leverage, at the same time as the property cycle turns down, asset values are falling and schemes have to be completed to create best value. This creates a potentially damaging scenario where debt is rising and asset values are falling. Mindful of this scenario, we have prudent debt levels (even at maximum facility utilisation of £60m) and we have pre-sold a significant proportion of the current development work in progress.

Secondly, a health and safety related breach that causes a fatality (or similar serious outcome). We manage this risk through a very robust health and safety policy, zero tolerance towards policy breaches and treat health and safety as the first matter for discussion on our Company Board meeting agendas. Our safety scores continue to be well into the top quartile of the UK construction industry and we have achieved a very safe working environment for more than 20 years.

Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over the three year period ending 31 March 2020.

Pictured Right: Having raised over £25,500 for The Master Cutler's Challenge in Sheffield, we received an award for 'Most Innovative Fundraiser'.