Severfield

Severfield plc Annual report and accounts
for the year ended 31 March 2021

DEVELOPING BETTER WAYS TO BUILD FOR A WORLD OF CHANGING DEMANDS

Severfield

WELCOME TO OUR ANNUAL REPORT 2021

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

"Our 2021 performance is testament to a resilience which has been developed and embedded over a number of years of strategic and operational progress."

KEVIN WHITEMAN
NON-EXECUTIVE CHAIRMAN

Read more about **our chairman's view** on pages 10 to 11

"The Group's strategy to build a balanced business, with geographic, sector and client diversity, has facilitated revenue growth of around 30 per cent over the last three years."

ALAN DUNSMORE
CHIEF EXECUTIVE OFFICER

Read more about **our strategy** on pages 32 to 41

Investor website

We maintain a corporate website at **www.severfield.com** containing a wide range of information of interest to institutional and private investors, including:

- Latest news and press releases
- Annual reports and investor presentations

Severfield

THE STRENGTH WITHIN ICONIC STRUCTURES

OUR PROJECTS

FULHAM FC RIVERSIDE STAND

The two-tiered stand redevelopment aims to not only provide first class facilities for match-going football fans, but will benefit the local community by becoming a leisure destination in its own right, housing shops, restaurants, bars and even a health club with rooftop pool, all while blending in seamlessly with the West London surroundings with a new riverside walk.

Location
Fulham, London

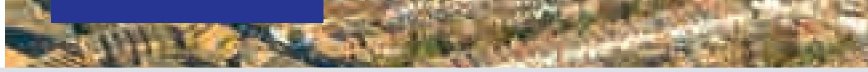
Client
Fulham Football Club

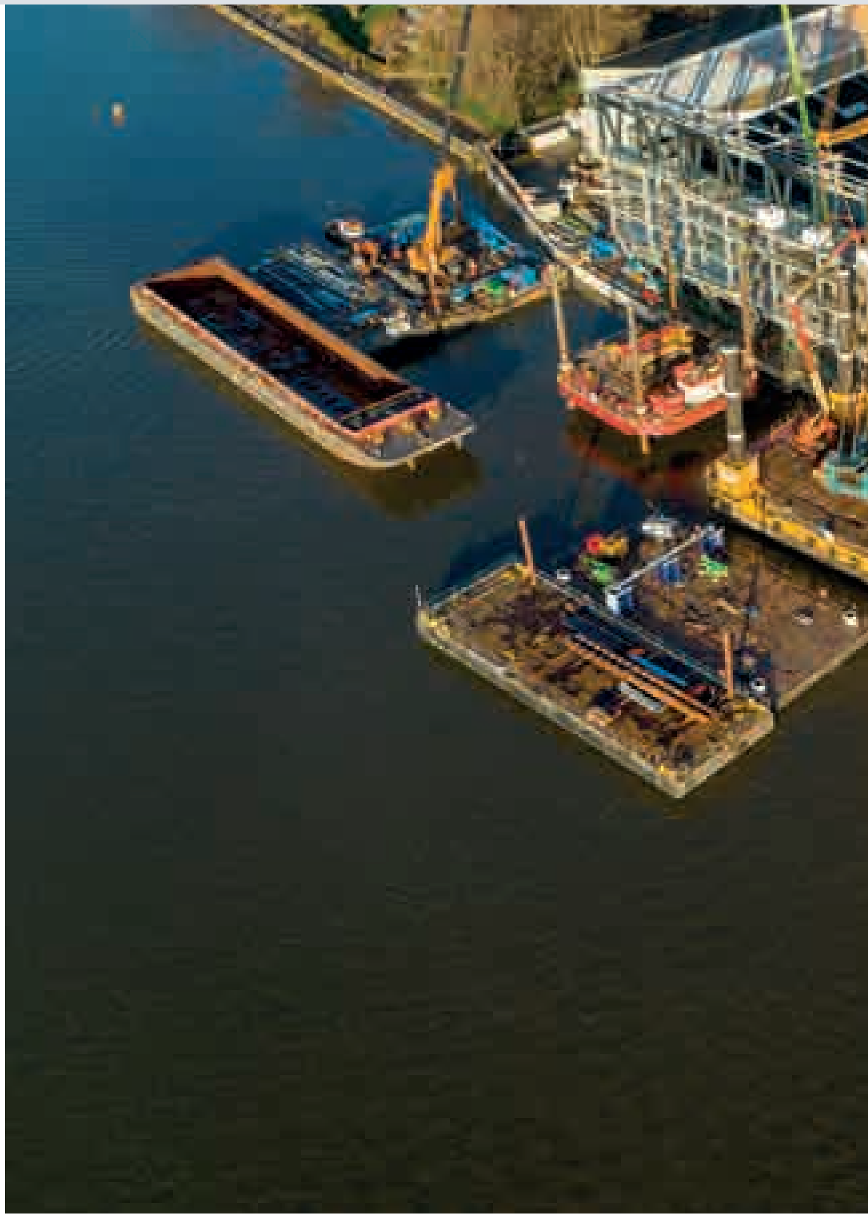
Main contractor
Buckingham Group Contracting Ltd

Engineer
WSP Group Plc

Architect
Populous Ltd

Tonnage
2,700





The project

The redevelopment project will add an additional 3,900 seats, taking the capacity of Craven Cottage to a total of 29,600 as well as enhancing local amenities. The Group's scope included the connection design, fabrication and erection of c.2,700 tonnes of structural steelwork, delivered from both our Dalton and Lostock production facilities, together with all secondary steelwork and temporary fittings, the installation of free issue concrete terrace units, vomitories and walls.

As ever, safety was a top priority, with use of our 'Seversafe' edge protection throughout the construction. The project has proven an extreme engineering and logistical challenge, but one that Severfield's experience and knowledge has helped meet.

Construction of the Riverside stand took place whilst Craven Cottage was still in operation during the 2019/2020 football season. This, together with the site's small footprint and riverside location, made usual methods of delivering

and erecting the roof trusses impossible. To solve this problem, the steelwork was pre-fabricated, assembled and fire-protected at Tilbury Docks, with the trusses delivered by barge along the River Thames and lifted into place with a 400-tonne capacity crane on a jack-up barge. This project had to be meticulously planned from with the utmost care and precision from the design stage onwards, with the trusses having to be designed to not only be lifted in such unusual ways while retaining strength, but to fit under London's iconic bridges, sometimes with only one metre of clearance at low tide. This was a clear success, with the fabrication and erection proceeding without issues.

The Riverside stand incorporates a cantilever roof structure, for which steel is the traditional choice of material, but steelwork was also chosen for the main structure and tiers because of the unique logistical constraints of the site. Flanked by the pitch to the north and the River Thames to the south, the project was constructed in a partly top-down sequence with steel columns springing directly from basement pile caps, allowing the steel frame construction to commence with the basement level works following afterwards.

BARKING RIVERSIDE EXTENSION

This redevelopment sees a significant expansion of the existing rail infrastructure north of the River Thames, which includes a large viaduct spanning over the existing railway lines.

Location
Barking, London

Client
Transport for London

Main contractor
Morgan Sindall Volker Fitzpatrick JV

Engineer
Arcadis NV

Architect
WestonWilliamson+Partners

Tonnage
3,100

Completion date
May 2021

The project

This rail extension is part of a significant investment in East London, which will support over 10,000 new homes along with leisure, healthcare and shopping facilities as part of a large multi-use development. The significant upgrade to the transport infrastructure includes a new railway station and a two-mile line extension to the existing Gospel Oak to Barking London Overground line including a signature viaduct spanning over the existing lines. Structural steelwork supplied and erected by Severfield is playing a pivotal role in the overall Barking Riverside extension, which will add 4.5 kilometres to the London Overground railway network.

Severfield was responsible for the supply and erection of plate girders for nine bridges, some of which were over operational railway lines. This posed logistical challenges and required the project team to work closely with local authorities and Transport for London to arrange rail possession periods to allow certain erection stages to proceed,

sometimes requiring the use of the largest mobile cranes in the UK, with capacities of up to 1,200 tonnes.

Due to the restricted erection programme, close collaboration with other contractors was a key requirement of the project. One particularly large and complex delivery to site which required such precise coordination, consisted of four large sections, each being 40 metres long and 3 metres wide with a combined weight of around 500 tonnes, was delivered and erected over a single weekend thereby minimising disruption to rail services.

The project has been a success, with high quality fabrication of the plate girders and the smooth execution of the on-site activities, despite the challenges faced by the project team.

BANKSIDE YARDS BUILDING 3

This multi-use development is a 19-storey steel structure built over historic railway arches in the heart of London.

Location
Bankside Yards, London

Client
Native Land

Main contractor
Multiplex Europe Limited

Engineer
AKT II

Architect
PLP Architecture

Tonnage
3,500

Completion date
Spring 2021

The project

The mixed-use development near the River Thames in Central London will feature commercial, office and residential spaces throughout its 19 floors. The overall Bankside Yards project will open up a previously inaccessible area, connecting routes between Bankside and the South Bank for the first time in more than a century.

Severfield have provided the connection design, supply and erection of the structural steelwork for the building, the supply and installation of metal decking on site as well as intumescent paint including on-site decorative finishes.

This project is unusual in that it is constructed over the historic railway arches which support the Thameslink railway line adjacent to Blackfriars station. These existing arches provided logistical and technical design challenges for the project. In order to perform the rigging and lifting of the steelwork all associated works required stringent design checks in

accordance with Network Rail's requirements. In addition, there were difficulties stemming from the site's very small footprint due to its proximity to Blackfriars Road. The project had to be carefully planned right from the design stage, as all columns had to be designed to not only retain their strength but also enable delivery to site within the confines of the site location. In some instances, mobile cranes were required on site to lift particularly heavy columns directly to specific areas of the building. Additionally, metal deck support plates and perimeter edges were fixed to columns and beams prior to lifting the steel into position which reduced the requirements for working at height.

Safety is always a top priority for the Group, but especially so on this project given the proximity of the public roads and railways surrounding it. From our experience and knowledge of working on such sites, the project team understood the importance of using our 'Seversafe' edge protection, safety fans and debris netting to help ensure the safety of both site contractors and members of the public.

KING'S CROSS P2

This project sees a significant mixed-use scheme developed in an area of London with key national and international rail links.

Location
King's Cross, London

Client
King's Cross Central Limited Partnership

Main contractor
Kier Group

Engineer
ATK-II

Architect
Allford Hall Monaghan Morris

Tonnage
3,600

Completion date
September 2020

The project

King's Cross P2 is a key piece of the King's Cross redevelopment. Acting as a backdrop to Lewis Cubitt Square, P2 is a 12-storey, steel-framed, mixed-use building, including office accommodation, a 600-seat theatre and c.18,000 square feet of retail space, further expanding the Coal Drops Yard complex, which the Group delivered in 2017.

The Group was responsible for fabricating, supplying and erecting c. 3,600-tonnes of internally exposed structural steelwork and supplying and installing c.20,000 square metres of hollowcore flooring. The steelwork including the connections and support plates needed to meet not only our rigorous quality and safety standards, but also an architectural standard of finish, as the soffit of the steelwork is exposed. The use of intumescent paint forms a key part of the process to ensure these decorative and safety standards are met.

Our commitment to providing a high-quality finished product was

evident from the outset, when the project team created a full bay mock-up to test the connection design, fabrication, paint finish and erection quality to ensure delivery of an exceptional end product.

Since the 67-acre King's Cross development is a busy public space, the project team were faced with several challenges, mainly time and access constraints, from the outset. Some of the first fabricated steel to be delivered by the Group to site included the largest sections for this project. Using a large mobile crane, four fabricated girders, measuring 20-metres long by 3 metres deep and over 1 metre wide, were erected at level one to form the roof of the theatre. These were installed successfully over just one weekend, minimising traffic disruption to the surrounding streets. The beams spanned half of the project's overall footprint and created the desired column-free internal space.

LARGE WAREHOUSE FACILITY – SWINDON

Development of a large new distribution centre and modern office accommodation for a leading internet retailer.

Location
Swindon, Wiltshire

Main contractor
Buckingham Group Contracting Ltd

Engineer
EirEng Consulting Engineers

Architect
Ashton Smith Associates

Tonnage
12,400

Completion date
May 2021

The project

As a result of the COVID-19 pandemic, demand for new distribution and warehouse facilities from internet-based retailers has never been higher. For this project in Swindon, Severfield is responsible for the structural steel-frame of the warehouse, three internal mezzanine floors, and all associated hubs, pods, offices and gatehouses, totalling c.12,000 tonnes of hot and cold rolled steel. This includes the supply and installation of c.160,000 square metres of galvanised metal floor decking, galvanised steelwork, open-mesh flooring and handrailing to 28 roof plant platforms, as well as the design, manufacture and installation of seven internal steel staircases. To supply this project, our cold rolled specialist joint venture, Construction Metal Forming Limited, supplied the cold rolled steelwork and metal floor decking.

The Group is familiar with large, complex warehouses having completed several in recent years. This project however brought new

challenges, with the overall large volume of steelwork and relatively short site programme of 25 weeks, placing a high demand for advance factory production to supply the site erection team and maintain the schedule. On top of this, from a design perspective, the design loadings and deflection requirements for the mezzanine floors were challenging. Specific client sign off of these elements were scheduled earlier than would normally be the case for such a project, to ensure the entire strict project programme was not disrupted.

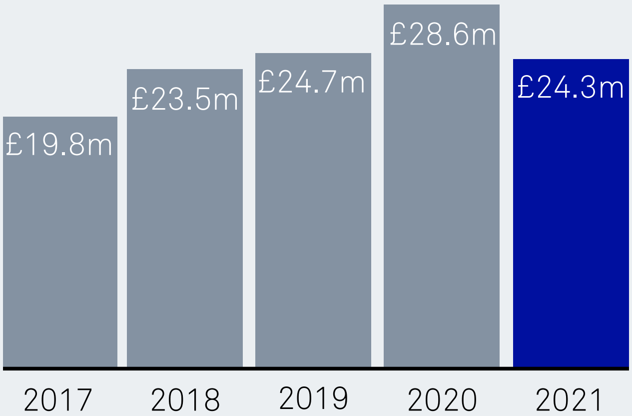
Nevertheless, the project has successfully dealt with the challenges faced, with quick resolution and integration of issues raised helping to deliver the project smoothly and with good relations with both client and subcontractors.

DEMONSTRATING RESILIENCE

Our underlying* profit before tax of £24.3m demonstrates the resilience of the Group against COVID-19 backdrop

Underlying* profit before tax

£24.3m

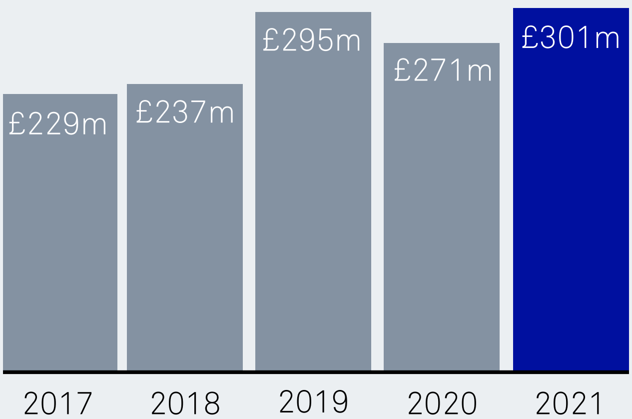


* Underlying results are stated before non-underlying items of £3.2m (2020: £2.8m) consisting of the amortisation of acquired intangible assets of £2.8m (2020: £1.4m) and net acquisition-related expenses of £0.4m (2020: £1.4m).

Read more about **our operating performance** on pages 46 to 53

Strong UK and Europe order book

£301m

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CONTENTS

A SNAPSHOT OF WHAT WE DO

AND HOW WE DO IT

01

OUR STRUCTURAL FRAMEWORK

Why we exist, what we want to be, what our purpose is and our strategy and values that our people believe in to help us achieve this.

Read about **our strong foundations** on pages 04 and 05

02

WHERE WE DO IT

Severfield (UK)
Dalton and Lostock

Severfield (Design & Build)
Sherburn and Dalton

Severfield (NI)
Ballinamallard

Severfield (Products & Processing) Sherburn

Severfield Europe
Zevenbergen, Netherlands

Harry Peers
Bolton

DAM Structures
Bridlington

JSW Severfield Structures
Mumbai, India

Construction Metal Forming
Monmouthshire

Read about **the scale of our operations** on pages 14 to 17

03

HOW WE MANAGE THREATS

Our risks

Risk management is at the heart of how the business is run and supports the Group's strategic objectives. We have identified eight principal risks and uncertainties which have the potential to impact the Group's business model and strategy.

See **how we manage risk** on pages 76 to 86

04

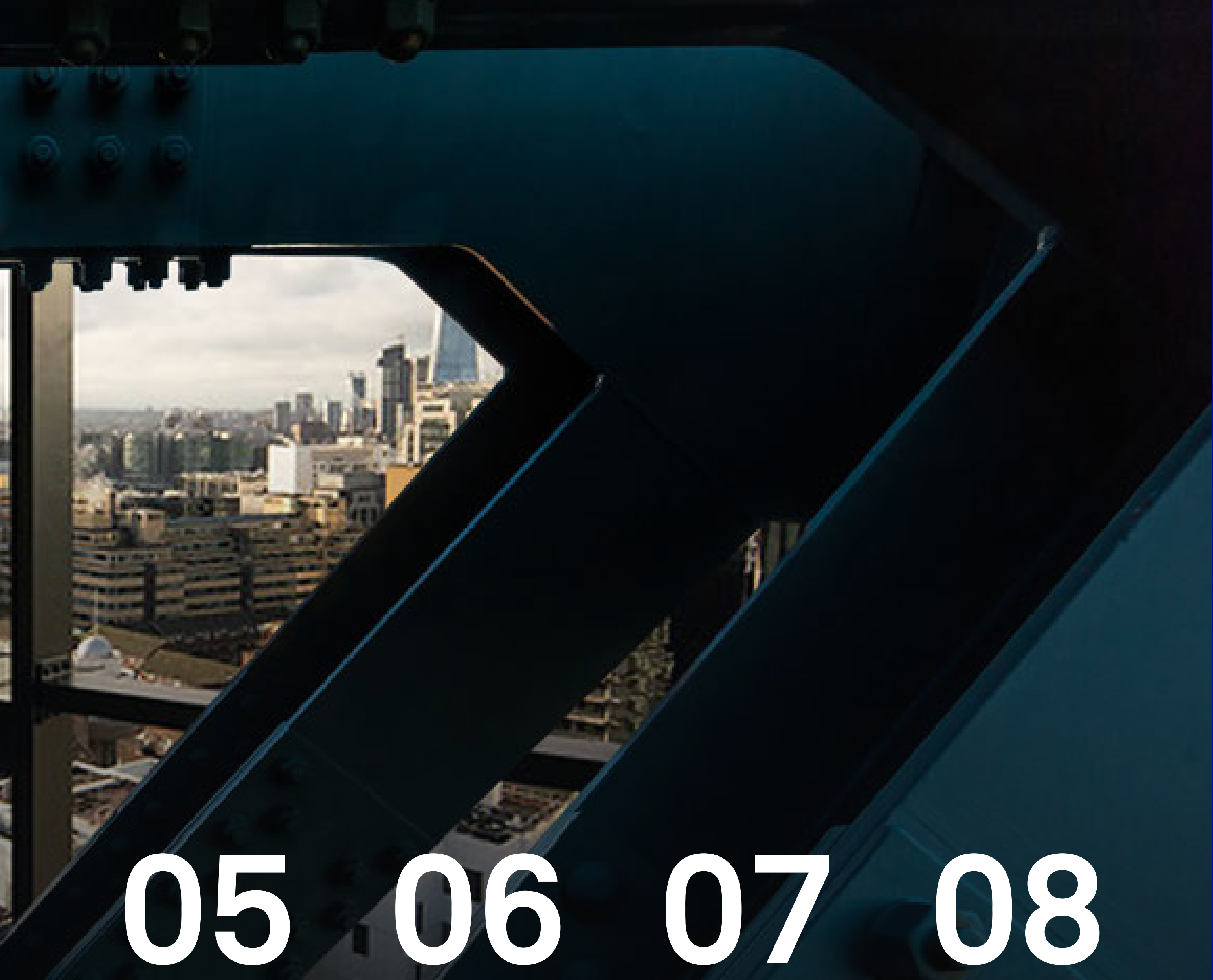
HOW WE IMPACT ON SOCIETY

Resources and relationships

There are four main areas where our business model impacts on society and where we have responsibilities that extend beyond financial performance, including on Environmental, Social and Governance ('ESG') matters.

Our planet, our people, our prosperity and our principles of governance.

See **building a sustainable business** on pages 60 to 75



05

WHO WE SERVE

Markets

Our state-of-the-art facilities provide steel structures which serve people every day, whether for work, leisure or travel, or to provide essential services, including power and energy, health and education. We have extensive experience in multiple market sectors, which supports the business through changes in spending patterns and fluctuations in macroeconomic conditions.

Read more about **the markets we serve** on pages 24 to 29

06

WHAT WE DO

Our business model

We manage every aspect of the fabrication and construction process, from initial scheme design, through detailing, specification and manufacture to the eventual handover to our clients of a quality product on-site.

See **how we create value** on pages 20 to 23

07

HOW WE GOVERN OURSELVES

Our governance

We are committed to maintaining the highest standards of corporate governance and ensuring that values and behaviours are consistent across our businesses. We encourage open and honest discussion and constructive challenge across the Group to ensure that best practice is maintained. This culture is integral to our business model and strategy and for the benefit of our shareholders. Our KPIs are linked to our remuneration policy to ensure that there is a strong alignment to our strategic priorities.

08

HOW WE MEASURE SUCCESS

Our KPIs

We use a combination of financial and non-financial key performance indicators ('KPIs') to measure our progress in delivering our strategic priorities.

Read more about our **key performance indicators** on pages 42 to 45

OUR STRONG FOUNDATIONS

HOW OUR STRONG FOUNDATIONS SUPPORT OUR SUSTAINABLE GROWTH ASPIRATIONS

During a year which has been dominated by the COVID-19 pandemic, our strong 2021 results demonstrate the resilience of the Group as we continued to deliver on our strategic objectives and continued to grow the Group. We were able to support our employees, our customers, and our other stakeholders through these challenging times, maintaining our focus on their health, safety and wellbeing together with protecting the financial strength of the Group. The strength of our UK and Europe order book and breadth of our experience across a wide and diverse range of market sectors leaves us well positioned to continue to build on this success.

01

OUR PURPOSE

Our purpose is to develop better ways to build, for a world of changing demands.

As the world of work and industry evolves, the buildings we use and the things we demand from them change consistently. Our response is to stay habitually innovative. We are instinctively driven towards better ways of building. Our engineers are known for their remarkable ingenuity, consistently pushing boundaries to create better buildings.

02

OUR STRATEGY

Our strategy revolves around five main elements. This is aided by our business improvement programme, **'Smarter, Safer, more Sustainable'**.

Growth
Clients
India
Operational excellence
People

Read more about **our strategy** on pages 32 to 41

03

OUR VALUES

Safety

There's a reason it's known as 'safety first'. We make no apologies for the fact that profit and loss, deadlines and headlines all come second to making sure everyone goes home safely every day.

Integrity

We operate in a complex and challenging industry, one that often requires innovative thinking and a flexible approach to deliver successful outcomes. The one thing we'll never compromise on is our integrity, which ensures we're able to maintain the exceptionally high standards we set for ourselves.

Customer focus

Our clients are paramount in all that we do. We are here to understand their requirements and meet their aspirations. Together we will deliver projects of which we can all be proud.

Commitment

We may move with the times, but our long and rich history means that we have a few old-fashioned beliefs. One of those beliefs is that you stand by your word. When Severfield say we'll deliver, whatever challenges lie ahead, you can depend on us to deliver, and to the highest possible standards.

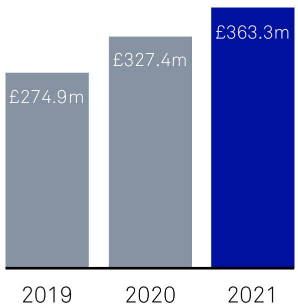
OUR YEAR IN REVIEW

RESILIENT PERFORMANCE DESPITE COVID-19, GOOD CASH GENERATION AND A STRONG BALANCE SHEET

Financial Highlights

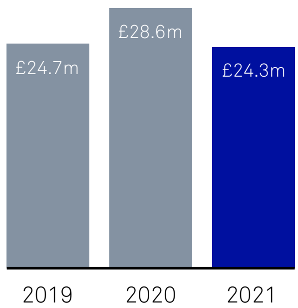
Revenue

£363.3m



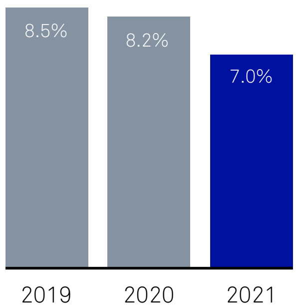
Underlying* profit before tax

£24.3m



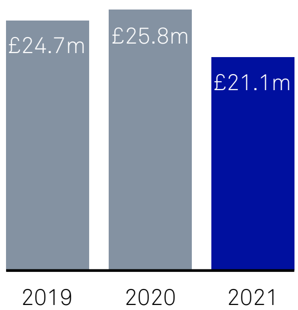
Underlying* operating margin

7.0%



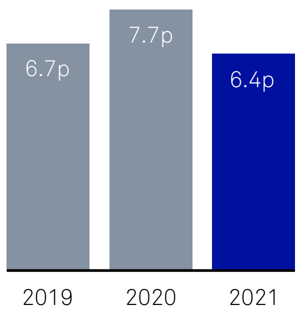
Profit before tax

£21.1m



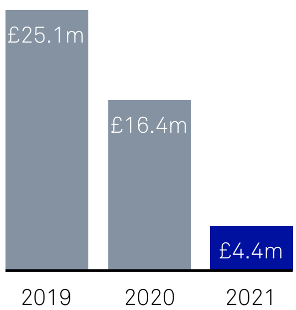
Underlying* basic earnings per share

6.4p



Net funds**

£4.4m



* Underlying results are stated before non-underlying items of £3.2m (2020: £2.8m) consisting of the amortisation of acquired intangible assets of £2.8m (2020: £1.4m) and net acquisition-related expenses of £0.4m (2020: £1.4m).

** The Group excludes IFRS 16 lease liabilities from its measure of net funds/debt as they are excluded from the definition of net debt as set out in the Group's borrowing facilities.

Read more about **our financial performance** on pages 54 to 57

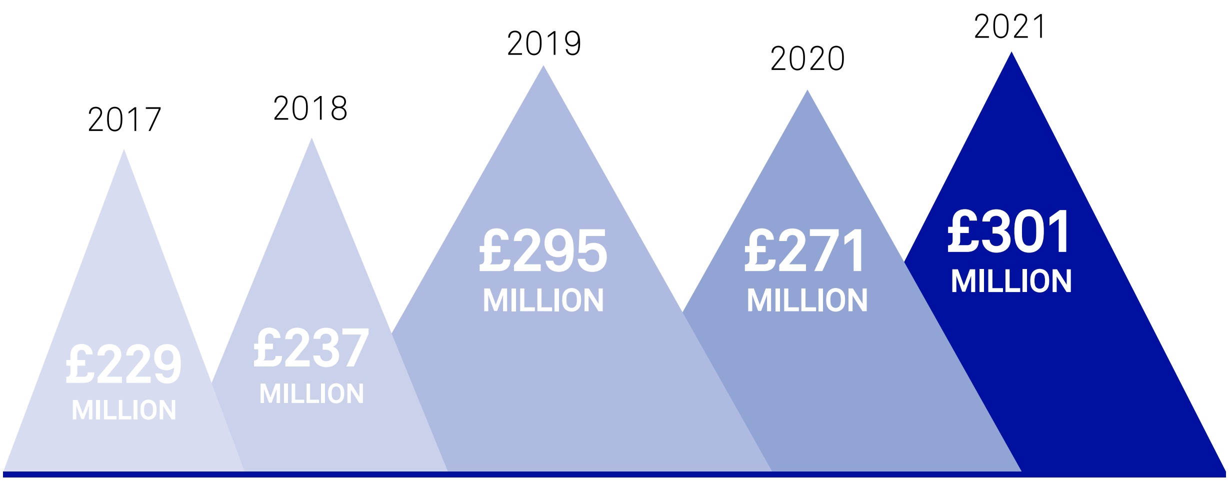
Operational highlights

- Revenue up 11% to £363.3m (2020: £327.4m)
- Underlying* profit before tax of £24.3m (2020: £28.6m), demonstrates resilience of the Group against COVID-19 backdrop
- Underlying* basic earnings per share of 6.4p (2020: 7.7p)
- Total dividend of 2.9p per share (2020: 2.9p per share), includes proposed final dividend of 1.8p per share (2020: 1.8p per share)
- Acquisition of DAM Structures, an innovative steel fabrication company, giving the Group immediate access to attractive, complementary market sectors with strong growth potential, including the propping, railway and steel piling markets
- Good cash generation resulting in year-end cash balances of £25.0m. Net funds (pre-IFRS 16 basis**) were £4.4m (2020: £16.4m), including acquisition loans of £20.7m (2020: £13.1m)
- No claims made under COVID-related government schemes, all tax deferrals now fully up to date
- Over 100 projects undertaken during the year in the UK, Ireland and continental Europe in diverse market sectors, including industrial and distribution, data centres, nuclear and commercial offices
- UK and Europe order book of £301m at 1 June 2021 (1 November 2020: £287m), including £18m for DAM Structures, of which £241m is for delivery over the next 12 months
- Share of loss from Indian joint venture ('JSSL') of £0.7m (2020: profit of £2.2m), reflecting the COVID-19 impacted loss in H1 and break-even profit position in H2
- India order book of £140m at 1 June 2021 (1 November 2020: £98m), a record high for the company, reflects strong underlying demand of structural steel in India

Order book 2021

The order book contains a healthy mix of projects across a diverse range of sectors, including industrial and distribution, data centres, nuclear, commercial offices and stadia and leisure.

UK and Europe order book



SHOWCASING OUR RESILIENCE TO COVID-19

AND HOW SEVERFIELD HAS SUPPORTED ALL OF OUR STAKEHOLDERS THROUGH THE PANDEMIC

Safety first

The Group's approach to the COVID-19 pandemic has been guided by our core values and throughout this period, our primary focus has been on the health, safety and wellbeing of all colleagues, clients and the wider public. During the early stages of the pandemic, all our factories and sites reacted quickly and decisively by successfully implementing new operating procedures, in accordance with national government, devolved administration and industry guidance, including changes to working practices, enhanced levels of cleaning, additional hygiene facilities and social distancing. The Group also facilitated home working by all office staff, where appropriate, and this was supported by the acceleration of software upgrades and the adoption and widespread use of Microsoft Teams.

2020

Maintain our financial strength

Our strong financial position and significant market sector, geographical and client diversification has enabled us to successfully navigate the headwinds of COVID-19. We have been trading at normal (pre-pandemic) levels since June 2020.

During the pandemic, the Group's strong cash position has been carefully managed. We took advantage of certain permissions to defer VAT, PAYE and other tax payments, and at the year end, all these deferred amounts had been repaid and were fully up to date. In addition, borrowings of £15m, originally drawn down in late March 2020 under the Group's revolving credit facility ('RCF') as a precautionary measure in response to the COVID-19 outbreak, were repaid in June 2020.

Work closely with our suppliers

Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices remained a major area of focus throughout the year and even more so against the backdrop of COVID-19. We worked closely with our suppliers to ensure the disruption caused by COVID-19 was minimised. Our three main businesses are all signatories of the Prompt Payment Code ('PPC'). As a result of the continued hard work of our purchase ledger teams, for the PPC reporting period of 1 October 2020 to 31 March 2021 these businesses all reported that at least 95 per cent of invoices were paid within 60 days.

Support our people

We were conscious of the difficulties faced by some of our people through extended periods of working from home and the effect this could have on their mental health and in response to this we increased the level of Group-wide communications and also encouraged the use of Microsoft Teams to facilitate regular video calling. During the year, we launched our new intranet, SeverfieldConnect. This has allowed us to keep colleagues up to date on the strategy, performance and progress of the organisation, general company news and health and wellbeing issues. Specifically, in response to COVID-19, SeverfieldConnect was also used to provide additional regular updates to colleagues and to provide practical advice and support during the pandemic, through a dedicated intranet page, Coronavirus Hub.

Despite the COVID-19 headwinds, we continued to invest in our people, through the continuous provision of training programmes, including externally facilitated courses and events, together with a wide range of training courses that are provided internally by our dedicated in-house HR and SHE teams. Furthermore, we continued to train our team of 60 mental health first aiders and rolled out our enhanced Employees Assistance Programme, which includes the launch of a new app (My Healthy Advantage), to provide support and advice to colleagues on physical and mental wellbeing issues.

Support the government's recovery plan

Whilst we furloughed some of our workforce in Q1, all of whom have long since returned to work, we did not claim for support under any employee-related government support packages, including the Coronavirus Job Retention Scheme.

As a key component of economic growth, the construction industry will be central to a sustainable recovery from the effects of COVID-19. New, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth, including the UK government's National Infrastructure Strategy ('NIS'), which sets out plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. This, together with our encouraging pipeline of opportunities, leaves us well-placed to win work in a diverse range of market sectors and geographies in which we operate and across a wide client base, providing us with extra resilience and the ability to increase our market share and to drive future profitable growth.

CHAIRMAN'S VIEW

KEVIN WHITEMAN | NON-EXECUTIVE CHAIRMAN

DEMONSTRATING THE GROUP'S RESILIENCE IN A YEAR OF CHALLENGES

Our chairman's view

Despite the disruption and challenges of COVID-19, the Group delivered a strong performance in the 2021 financial year, which is testament to a resilience which has been developed and embedded over a number of years of strategic and operational progress. In 2021, we have continued to grow the business, strengthen our balance sheet and make further progress with our 'Smarter, Safer, more Sustainable' business improvement programmes. We have also continued to invest in improving the business, including through our capital investment programme and by entering new markets through the acquisition of DAM Structures.

Group revenue for the year was £363.3m, an increase of 11 per cent on 2020, and we are very pleased with an underlying* profit before tax of £24.3m, which has been achieved despite some very challenging market conditions in 2021. The strength of our business model, even in the face of a pandemic, is evidenced by our positive operating cash flow (operating cash conversion was 93 per cent) and the continuation of our progressive dividend policy, recognising the importance of dividends to our shareholders. Our year-end net funds were £4.4m which includes cash balances of £25.0m, providing us with significant amounts of cash headroom in our banking facilities.

Throughout the year, we had to adapt quickly and decisively to the ever-changing COVID-19 backdrop. I would sincerely like to thank all our colleagues for their commitment and dedication, recognising how they have stepped up in these challenging times.

Navigating through COVID-19

The Group has coped well with the challenges presented by the COVID-19 pandemic. The Group's factories and sites are fully operational, and we have been trading at normal (pre-pandemic) levels, in line with government and industry guidelines, since June 2020. Although the first COVID-19 wave and associated lockdown impacted the Group's profitability in Q1, subsequent regional and further national lockdown restrictions imposed in the second half of the year did not result in any further significant disruption to our operations.

In managing our response to the pandemic, the primary focus has been on the health, safety and wellbeing of all employees, clients and the wider public, together with protecting the financial strength of the Group. During the year, all our factories and sites implemented new operating procedures, including changes to working practices, enhanced levels of cleaning, additional hygiene facilities and social distancing.

Our strong financial position has also meant that, whilst we furloughed some of our workforce in Q1, we did not claim for support under any employee-related government support packages, including the Coronavirus Job Retention Scheme. During the year, although the Group took advantage of certain permissions to defer VAT, PAYE and other tax payments, all these deferred amounts have now been repaid.

Board changes

John Dodds retired from the board as non-executive chairman at the conclusion of the AGM in September 2020, having served for ten years, including nine years as chairman. John was instrumental in securing the future of the Group through the rights issue in 2013 and in its subsequent recovery and strengthening. On behalf of the board, I would like to express our enormous gratitude to John for his leadership and guidance as he leaves behind a very strong legacy. Following the completion of a comprehensive selection and appointment process, I succeeded John as non-executive chairman and as

Read more about **our operating performance** on pages 46 to 53

Read more about **our board of directors** on pages 90 to 91

Read more about **our financial performance** on pages 54 to 57

Read more about **our strategy** on pages 32 to 41

Read more about **building a sustainable business** on pages 60 to 75

* The basis for stating results on an underlying basis is set out on page 06.

chairman of the nominations committee and am delighted to be leading the board as the Group moves into the next phase of its development.

In 2021, as part of our board succession planning process, we commenced a selection process for an additional non-executive director. I am pleased to announce that Rosie Toogood has agreed to join the board with effect from 16 June. Rosie brings a wealth of manufacturing and engineering experience within the modular homes, aerospace and nuclear sectors to the board. She is currently CEO of L&G's modular homes business, having previously had a successful 25-year career at Rolls-Royce, progressing from a finance executive into procurement and technology positions followed by a general management role where she was Executive Vice President for the Compressors division. We welcome her to the board.

Markets and strategy

The COVID-19 pandemic has not changed our business model and our strategy also remains unchanged. Despite some investment decisions being delayed by clients and developers, more obviously in the earlier part of the year, our clients have continued to regularly place orders and we have secured a significant value of new work over the past 12 months. This has resulted in a UK and Europe order book at 1 June 2021 of £301m, leaving us well-positioned with a strong future workload for the 2022 financial year and beyond. Although pricing remains tight, we are very encouraged by the current level of tendering and pipeline activity across the Group.

As a key component of economic growth, the construction industry will be central to a sustainable recovery from the effects of COVID-19. With the release of the UK government's five-year plan in November, infrastructure investment will play a significant role in this recovery, given its multiplier effect on jobs and spending. Many of these projects contain a significant steelwork content, which the Group is well-positioned to benefit from given our historical track record in the transport sector and in-house bridge capability, together with the in-depth expertise of the recently acquired DAM Structures (see below).

Our strategic progress over recent years has enabled us to successfully navigate the headwinds of Brexit and the COVID-19 pandemic, which have contributed to periods of market softness in certain of our main sectors in the UK, notably commercial offices. In 2021, we have seen further growth in our revenue and continued investment in our business and in the expansion of our client base and market reach. The acquisition of DAM Structures, which is integrating well into the existing Group, gives us access to attractive, complementary market sectors, including in infrastructure, with strong growth potential.

Our 'Smarter, Safer, more Sustainable' programmes have continued to drive improvements to operational efficiencies and business processes. As part of our digital transformation initiative, we have overseen further technology improvements in both our manufacturing and contracting operations. We have also invested in our engineering capability and have continued to invest in our factories, particularly at our main production centre in Dalton, where we are continuing to upgrade and expand our fabrication capability to improve the output and efficiency of these operations.

Dividends

The board considers the dividend to be a very important component of shareholder returns. Accordingly, based on its current assessment of the performance of the business, the outlook for the year and our strong financial position, the board is recommending a final dividend of 1.8p per share (2020: 1.8p), which, together with the interim dividend of 1.1p per share (2020: 1.1p), will result in a total dividend of 2.9p per share, unchanged from the previous year.

India

The Indian joint venture ('JSSL') has continued its recovery from the disruptive effects of COVID-19 and after a difficult first half, the company maintained a largely break-even profit position in H2. JSSL's order book as at 1 June 2021 was a record £140m (1 November 2020: £98m) and this includes several recent commercial awards and some further industrial work for JSW.

Although the return to normal trading conditions in India has been considerably disrupted by the ongoing second wave of COVID-19, JSSL's pipeline of potential orders continues to include several commercial projects for key developers and clients with whom it has established strong relationships. JSSL is also developing formal strategic alliances with certain key clients, mainly for commercial, data centre and healthcare projects. We remain very positive about the long-term development of the Indian market and the value creation potential of JSSL.

Sustainability

In 2021, we launched our new sustainability strategy. We know that construction has a key role to play in reducing carbon emissions and waste and meeting international commitments on climate change. In the 2021 financial year, the Group continued to make good progress in reducing energy and fuel consumption and emissions, resulting in a reduction in our carbon intensity from our scope 1 and 2 emissions of 21 per cent since 2020 and 64 per cent since 2015 (using a market-based approach). We also maintained our 'B' rating in the CDP index and were awarded an 'A' in the CDP Supplier Engagement Rating, improving on the prior year score of 'A minus'. We will continue to work collaboratively with customers, industry and our supply chain to ensure that we meet our targets and ambitions.

Summary and outlook

Although 2021 was a very challenging period for all of us at Severfield, it was also one which demonstrated the tremendous resilience that the Group has developed over recent years in creating a business able to maintain its disciplines, capability and financial strength, whilst continuing to invest for the future.

The construction industry has an obvious role to play in the recovery of the UK economy, leaving us well-placed to win work in the diverse range of market sectors and geographies in which we operate and across our wide client base, and I look forward to 2022 with optimism.

Kevin Whiteman
Non-executive chairman

16 June 2021

* The basis for stating results on an underlying basis is set out on page 06.

INVESTMENT CASE

We are driving sustainable growth to create long-term value for all stakeholders

01

CUSTOMER FOCUS

We are committed to providing outstanding customer service. An essential part of project delivery is understanding our clients' requirements and aspirations. This builds secure, sustainable and mutually valuable relationships and creates lasting client satisfaction.

02

MARKET LEADER

Severfield is the UK's market-leading structural steel company, respected for delivering world-class engineering and design excellence. We have unrivalled experience and capability in the design, fabrication and construction of steel structures. The breadth of technical expertise in our workforce ensures that we can serve our diverse range of market sectors, positioning us well for future growth.

03

INTEGRATED APPROACH FROM DESIGN TO CONSTRUCTION

By engaging with our clients in the design stage, our understanding of their requirements is enhanced and adds value throughout the project life cycle. Our in-house design and construction teams work closely together to create the most efficient and safest solutions that match our clients' needs.

04

BENEFITS OF SCALE

Severfield is the largest structural steel business in the UK and one of the largest in Europe, with an expanding presence in India, providing unrivalled capacity and capability, allowing us to share our expertise across a wide range of market sectors to deliver cost-effective and innovative steel structure solutions.

07

PRODUCTIVITY AND GROWTH

Our disciplined use of capital for investment in market-leading technology, plant and equipment leads to higher quality products with a shorter turnaround, increasing the productivity of our operations. Alongside our targeted strategies for growth and operational excellence, our business model illustrates the Group's clear plan to develop and increase our market share and maximise shareholder returns.

08

SUPPLY CHAIN STRENGTHS

Careful management of the supply chain is an essential part of improving efficiency. We choose supply chain partners who match our expectations in terms of quality, sustainability and commitment to client service.

05

STRONG, PEOPLE-ORIENTATED CORPORATE CULTURE

A healthy corporate culture is vital to the creation and protection of long-term value and the success of our business model is driven by our culture, which is founded on our core values. Our culture is characterised by a respect for our talented people, a desire to deliver the best possible outcomes for our colleagues, clients and partners, the encouragement of openness and transparency, a collaborative approach towards working with our customers and our supply chain, and a regard for the sustainable value we can bring to local communities and the environment.

06

FOCUS ON SUSTAINABILITY

As a market leader in structural steel, we recognise that operating in a sustainable manner is crucial to both the current and future success of the Group. The Group is committed to behaving responsibly and conducting business with openness, honesty, and integrity - motivating and enabling our people and our supply chain to deliver high quality, innovative buildings in a sustainable and efficient way. Carbon reduction is an important strategic objective for the Group and we have launched our new sustainability strategy in 2021. We continue to make excellent progress in reducing the Group's carbon emissions, which have fallen by more than 50 per cent since 2015.

09

INNOVATION

Innovative thinking is integral to our approach, giving us flexibility in how we deliver projects for our clients. This means that our business can easily adapt to the trends across all the sectors that we serve. Our business model is based on a virtuous cycle of growth, investment and innovation.

10

OPERATIONAL EXCELLENCE

Our board of directors and employees have a wealth of experience in the construction industry. We have a track record of successful operational performance on many of the UK's most iconic structures. Our 'Smarter, Safer, more Sustainable' team are focused on delivering internal efficiency improvements to support the Group's operational efficiency and effectiveness.

OUR PROJECTS

1 **V&A Museum, Dundee**
Health and education

2 **Dunbar, Scotland**
Power and energy

3 **Emirates Arena & Velodrome, Glasgow**
Stadia and leisure

4 **Westfield Shopping Centre, Bradford**
Retail

5 **Anfield Stadium, Liverpool**
Stadia and leisure

6 **Ordsall Chord, Manchester**
Transport

7 **Manchester Engineering Campus Development, Manchester**
Health and education

8 **Peterborough Waste to Energy plant**
Power and energy

9 **BBC, Cardiff**
Commercial offices

10 **Princesshay, Exeter**
Retail

11 **Gulfstream Farnborough, Hampshire**
Transport

12 **Titanic, Belfast**
Commercial offices

13 **Large data centre, Dublin**
Data centres and other

14 **Covanta, Dublin**
Power and energy

15 **Coal Drops Yard**
Retail

16 **Google Headquarters, King's Cross**
Commercial offices

17 **22 Bishopsgate**
Commercial offices

18 **Tottenham Hotspur**
Stadia and leisure

19 **Lords Cricket Ground, Compton and Edrich Stands**
Stadia and leisure

20 **The Shard**
Commercial offices

21 **Wimbledon No.1 Court Roof**
Stadia and leisure

22 **ESS Target, Lund, Sweden**
Data centres and other

23 **Large data centre, Finland**
Data centres and other

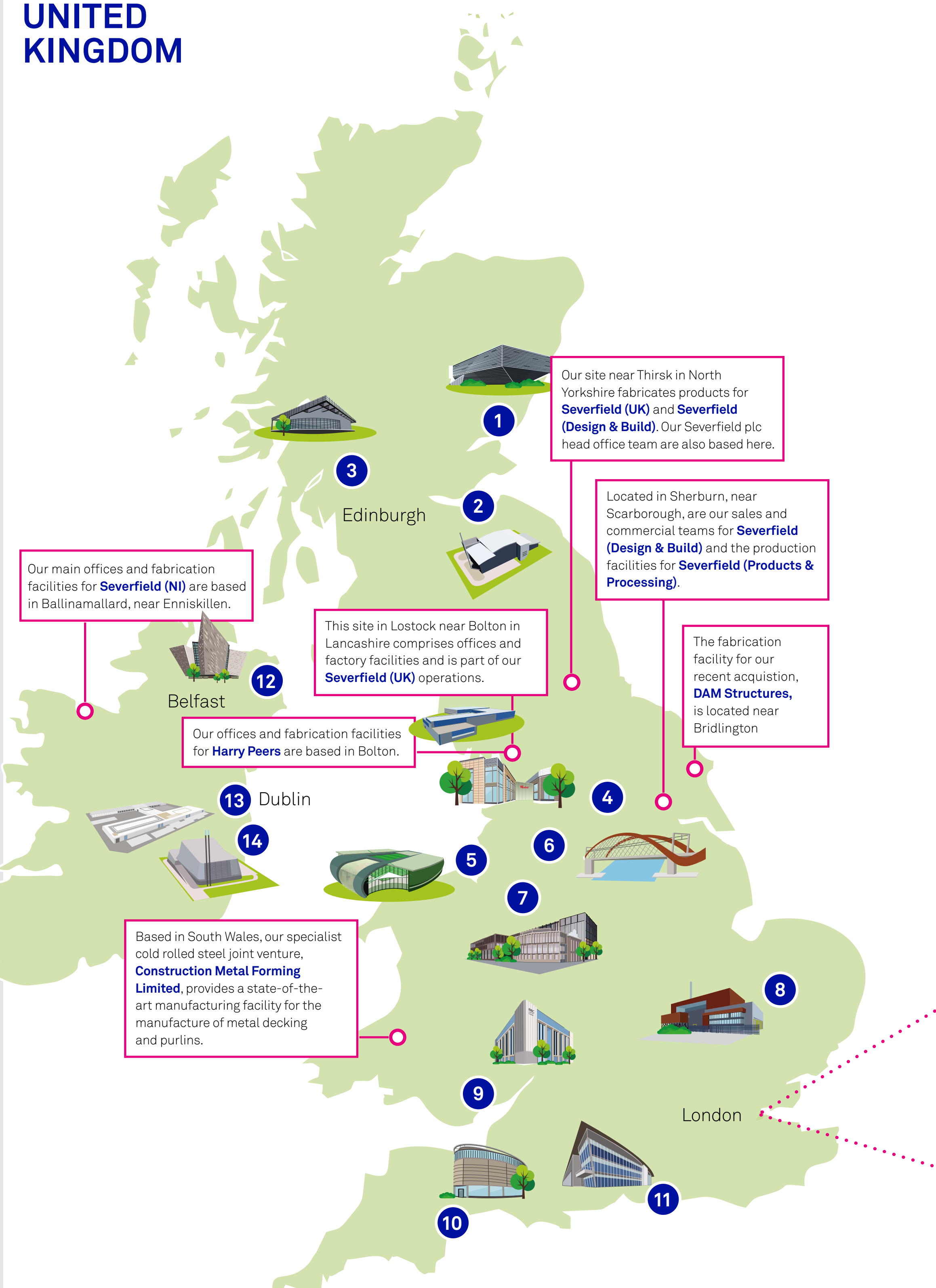
24 **Large data centre, Belgium**
Data centres and other

25 **Large warehouse, Germany**
Industrial and distribution

26 **Phoenix H10, Hyderabad**
Commercial offices

27 **Phoenix Centaurus, Hyderabad**
Commercial offices

UNITED KINGDOM



Our site near Thirsk in North Yorkshire fabricates products for **Severfield (UK)** and **Severfield (Design & Build)**. Our Severfield plc head office team are also based here.

Located in Sherburn, near Scarborough, are our sales and commercial teams for **Severfield (Design & Build)** and the production facilities for **Severfield (Products & Processing)**.

The fabrication facility for our recent acquistion, **DAM Structures,** is located near Bridlington

Our main offices and fabrication facilities for **Severfield (NI)** are based in Ballinamallard, near Enniskillen.

This site in Lostock near Bolton in Lancashire comprises offices and factory facilities and is part of our **Severfield (UK)** operations.

Our offices and fabrication facilities for **Harry Peers** are based in Bolton.

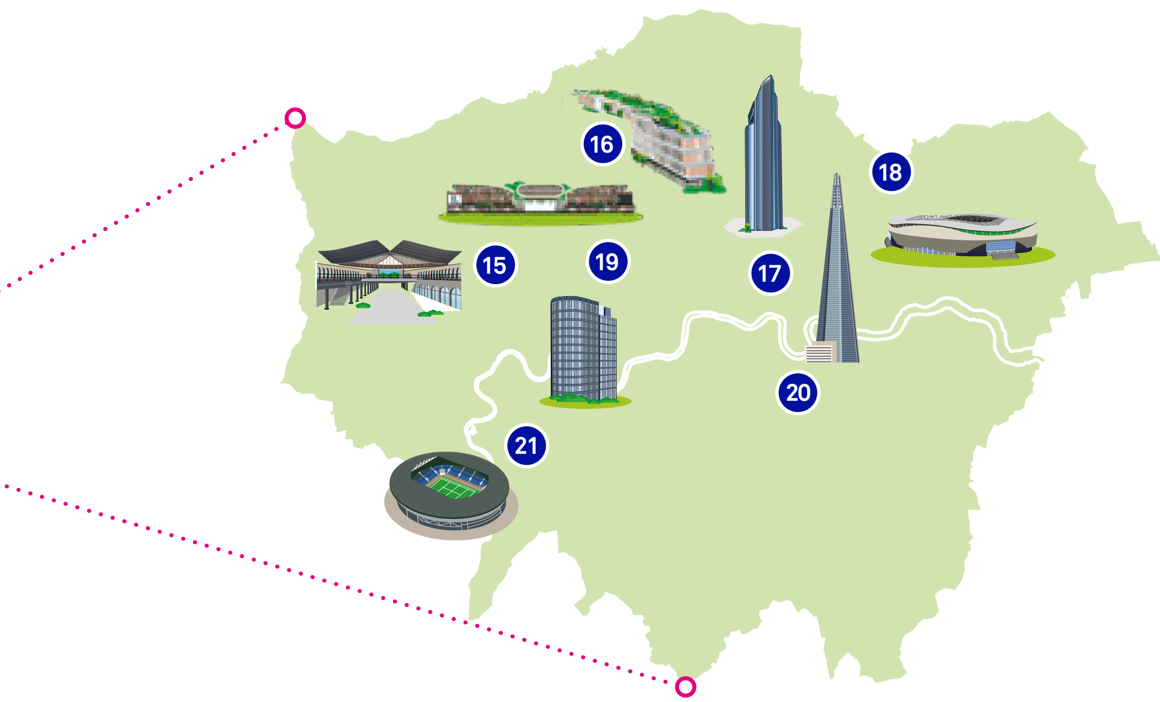
Based in South Wales, our specialist cold rolled steel joint venture, **Construction Metal Forming Limited**, provides a state-of-the-art manufacturing facility for the manufacture of metal decking and purlins.

EUROPE

INDIA

JSW Severfield Structures Limited, a 50:50 joint venture with JSW Steel (India's largest steel producer) which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the growing Indian market.

GREATER LONDON



THE SCALE OF OUR OPERATIONS

Operating across the Group's six main UK locations, we provide unrivalled capacity, capability and technical expertise to the industry. Our joint venture operations in India and Wales are fundamental in helping the Group achieve our strategic growth objectives.

Our subsidiaries

Severfield (UK) Limited Dalton, North Yorkshire

c.550 employees

The Group's main manufacturing centre boasts ten state-of-the-art production lines where modern manufacturing and painting processes are undertaken in a controlled environment for both our Severfield (UK) and Severfield (Design & Build) operations. The streamlined, high-volume and efficient nature of this facility is geared for strong repeat business in the structures market.

Severfield (UK) Limited Lostock, Greater Manchester

c.250 employees

This is one of the UK's largest structural steelwork sites, with a history dating back to 1933. The facility is internationally respected for its advanced design and engineering skills, having had a hand in many iconic and unique constructions. It can also take on more difficult or complex work with the capability of operating in 'challenging' environments such as live railways, airports, public places and city centres.

Severfield (Design & Build) Limited

c.100 employees

The company, located in Sherburn, near Scarborough, is the principal design and build steelwork contractor for distribution warehouses and low-rise structures in the UK. The company designs, fabricates and constructs structural steelwork and portal frames principally for the warehouse, distribution and industrial sectors. In 2018, steel fabrication at Sherburn was consolidated into our Dalton factory.

Severfield (NI) Limited

c.350 employees

Severfield's base in Northern Ireland has a strong reputation for delivering quality constructional steel products in the UK and Irish structural steel market. The facility provides full-service capabilities and is equipped with the latest manufacturing processes. The company's highly skilled workforce includes a directly employed site construction team. This offers significant benefits to clients with experienced, dedicated and capable personnel administering every part of the fabrication and construction process from initial scheme design, through detailing, specification and manufacture to the eventual handover of a quality product on site.

Severfield Europe B.V.

c.10 employees

Our European business, based in the Netherlands, extends the Group's capabilities into continental Europe. The company's highly skilled team are winning work and developing a pipeline of future orders across a wide range of high-quality projects in Northern Europe and Scandinavia. Supported by our UK fabrication capability, this enables the company to tailor our established UK offering to the wider European market.

Severfield (Products & Processing) Limited

c.75 employees

Severfield (Products & Processing) was launched at Sherburn in 2018. The company provides a one-stop shop for steel products and processing service using our extensive range of equipment and allows us to address smaller scale projects. The company offers a market-leading suite of products, including an expanding range of modular products to cater to diverse needs, including 'Severstor' units (robust, steel-framed modules that house critical systems equipment such as electrical switchgear) and 'Rotoflo' technology (a well-established high-efficient and controlled discharge system representing a major advance in materials handling technology).

Harry Peers & Co Limited

c.65 employees

Acquired by the Group in 2020, Harry Peers is based in Bolton near the Group's Lostock facility. The company is a leading structural steelwork business and is experienced in the specialist, highly regulated nuclear, process industries and power generation sectors. The Bolton facility includes the Peers award-winning design team, utilising state-of-the-art design software and Tekla detailing facilities to offer customers value engineering and options for modular construction.

DAM Structures Limited

c.70 employees

DAM Structures was acquired by the Group in February 2021. The company is an innovative steel fabrication business, with access to the propping, railway and steel piling markets, which have strong growth potential. Based near Bridlington, their manufacturing capabilities range from plunge columns, plated beams, box sections, tower crane grillages, propping works, façade retention towers and portal-framed structures through to mezzanine floors and heavy-duty stairs and bridges.

Our joint ventures

JSW Severfield Structures Limited

The company, a 50:50 joint venture with JSW Steel (India's largest steel producer) which is situated in the district of Bellary, Karnataka, India, is involved in the design, fabrication and construction of structural steelwork to principally service the Indian market.

Its state-of-the-art facility consists of six standard (saw and drill) fabrication lines, two plate (INDISEC®) lines, smaller welded beam lines, bit shops and five bays which provide bespoke off-line heavy fabrication, tubular products, specialised multi-coat painting and further bogey line fabrication. Off-line facilities are available to manufacture hand railing, stairs and other ancillary products.

The facility has been designed to optimise product range, quality and productivity, and incorporates cutting-edge technology and processing equipment. The recent expansion of the Bellary facility has increased capacity from c.60,000 tonnes to c.90,000 tonnes.

Construction Metal Forming Limited

The Group has a 50 per cent share of Construction Metal Forming Limited ('CMF'), a specialist designer, manufacturer, innovator and installer of profiled MetFloor® metal decking. The modern manufacturing facility in South Wales houses three dedicated roll forming production lines, for the manufacture of MetFloor® metal decking. Recent investment by CMF has further expanded the company's product range to include cold formed products, the design and manufacture of steel purlins and certain modular products.

Key:

■ Design ■ Fabricate ■ Construct

STRATEGIC REPORT

CONTENTS

HOW WE CREATE VALUE

Severfield plc is the UK's market-leading structural steel group, serving the construction and infrastructure markets. Our vision is to be recognised as world-class leaders in structural steel, known for our ability to deliver any project to the highest possible standards.

OUR INPUTS

Resources

The Group can offer great choice, value and flexibility thanks to our network of factories and the technical expertise of our people. The Group is equipped with the latest state-of-the-art manufacturing and painting processes and has a highly skilled workforce of around 1,400 staff, including an in-house construction team. We have the design and engineering skills to serve a diverse range of market sectors. The dedication, expertise and experience of our workforce ensure that we offer more skills and variety than any other UK steel contractor.

Partners

The Group spends a high percentage of its operating costs on goods and subcontractor services. Careful management of the supply chain is essential to drive efficiency, and suppliers are monitored to ensure that maximum benefits are delivered to clients through contracting processes. Our framework of robust risk management and control ensures that challenges are mitigated, allowing us to deliver all projects to the highest possible standard. We engage with clients and the supply chain wherever we operate, and long-term relationships are forged with partners who meet our commitment to quality, sustainability and excellent client service.

Commitment to health and safety

The wellbeing and safety of our employees, clients, suppliers and subcontractors are paramount and directly impact on the commercial viability of our business. The directors, through the implementation of our safety, health and environmental philosophy, encourage each employee and subcontractor to strive constantly to adopt the best safety, health and environmental practices.

Sustainable investment

We are continually investing in our business in order to preserve our ability to generate value in the short, medium and long term.

OUR VALUE PROPOSITION

Our customers

Clients serviced by the Group cover a broad range of disciplines from contractors and developers, to engineers and architects. We are focused on and are committed to delivering excellent customer service at every stage of the project to our broad range of clients and draw upon our industry experience to allow us to tailor our offering and service to customers' needs.

Why they work with us

Severfield has a strong history of delivering iconic and unique structures. Our competitive advantage derives from our client focus, operational excellence, benefits of scale, integrated approach from design to construction, innovation and our strong focus on driving growth and productivity.

We aim to leverage our skills and experience in these areas to allow us to better understand our customers' own needs and work with them to provide world-class steel solutions. We approach every project, from the highly technical to basic structural work, with the same level of safety, professionalism, commitment, care and customer service.

We manage every aspect of the fabrication and construction process, from initial scheme design, through detailing, specification and manufacture to the eventual handover to our clients of a quality product on-site.

Read more about **our investment case** on pages 12 to 13

We manage every aspect of the fabrication and construction process, from initial scheme design, through detailing, specification and manufacture to the eventual handover to our clients of a quality product on-site.

OUR SERVICES

01

DESIGN

The design process offers our clients innovative concepts and solutions. We are able to offer 'value engineering' through the close guidance of our consulting engineers at the concept of the project and with the assistance of the latest state-of-the-art computer software for 2D and 3D building information modelling ('BIM'), analysis and design.

Our advice on material choices, fabrication, fire protection, surface treatment and construction techniques can often lead to significant project savings and efficiencies.

Our engineers are also involved in temporary works to suit site construction and buildability issues. Working closely with the Group's in-house construction team, we ensure the most efficient and safest solutions for our clients' needs. This expertise is essential for high-rise towers and other complex structures undertaken by the Group.

02

FABRICATE

The Group's fabrication facilities include expansive stockyard areas and in-line cutting, fabrication, welding and painting and some of the largest finished goods and sub-assembly areas in the industry.

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 construction.

Our equipment is fed with numerical control data which optimises output and minimises waste and errors.

The FABSEC® production line at Dalton is a fully self-contained production facility. The process provides the structural steelwork sector with a full range of highly efficient plated sections, optimal section profiles and shop-applied intumescent coatings.

03

CONSTRUCT

The Group has its own highly trained construction workforce which provides services for all of its construction requirements. Working closely with the project management team, they are leaders in steel construction and utilise the latest equipment on-site. The Group is an industry leader in construction methodology.

The Group also has a large and highly experienced contract management team. Each contract manager is the single point of contact with each client and is supported by all resources within the Group. Our contract managers engage with our clients and the supply chain to ensure optimum communication and performance in all aspects of the project, including site construction and administration.

The Group's operational improvement programme, the objective of which is to improve risk assessment and operational and contract management processes, is central to the generation of value.

OUR VALUE GENERATION

Our activities generate the following types of long-term value:

For our shareholders

All of the Group's consolidated revenue and profits are generated from the design, fabrication and construction of structural steelwork and its related activities.

Our state-of-the-art manufacturing facilities have been established to generate profit and surplus cash flow. Steel purchases are only made for secured contracts in order to maximise working capital positions.

Good cash generation and balance sheet management provide a solid foundation for the Group.

Close management of our contracts and cost base is critical to our success, particularly in winning new contracts, reinvesting in our business and seeking further opportunities for growth.

The Group has a progressive dividend policy. We invest in capital projects and market-leading technology to drive sustainable growth.

For our customers

We approach every project, from the highly technical to basic structural work, with the same level of safety, professionalism, commitment, care and customer service.

Alongside our industry-leading customer service is our continued focus on product range development, to ensure our products meets the ever-changing needs of our customers.

For our employees

We are committed to matters of health and safety, sustainability, ethics and staff engagement. We ensure our employees are trained so they are skilled and qualified for their occupation and therefore can contribute to performance.

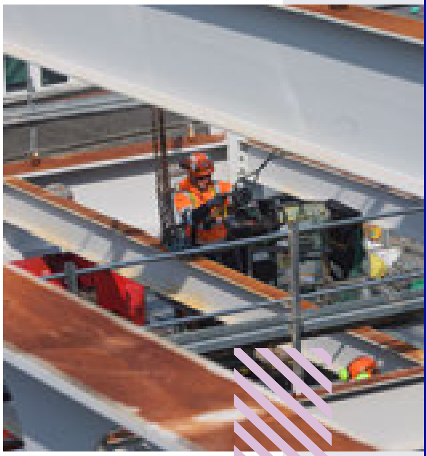
We offer our engaged and talented employees stable and secure employment in a growing business and with opportunities to develop and progress.

For our society

We are committed to minimising our impact on the national environment and local communities, as well as maintaining sustainable practices in all our disciplines.

We have a new sustainability strategy in development for 2021, as we aim to further reduce our environmental impact and carbon emissions, working collaboratively with customers, industry and the supply chain.

A commitment to our own Group charity, the Severfield Foundation, which partners with a nominated national charity, as well as supporting several local charities, to help us give back to society.



Underlying basic earnings per share

6.4p

£363.3m

Revenue from orders in 2021

£75.6m

paid in employee benefits in 2021

Reduction in greenhouse gas emissions to

27.5

tonnes of CO_2e/£m revenue


Severfield

THE MARKETS WE SERVE

THE UK AND EUROPE

WELL-PLACED TO WIN WORK IN THE DIVERSE RANGE OF MARKET SECTORS AND GEOGRAPHIES IN WHICH WE OPERATE

Our purpose is to develop better ways to build, for a world of changing demands and as the UK's largest specialist structural steelwork group, our balanced business model with market sector, geographical and client diversity provides the platform to further grow our market share in our chosen sectors.

Favourable market trends

Steel continues to be overwhelmingly the structural framing material of choice. Despite the total UK consumption of constructional steel decreasing by 20 per cent to 683,000 tonnes during the 2020 calendar year, mainly because of the COVID-19 pandemic, steel out-performed other framing materials and grew its already commanding market share in the shed-market to 92.4 per cent** across a broad range of sectors. According to the BCSA, steel output is expected to increase to c.800,000* tonnes in 2021 and c.850,000* tonnes in 2022.

As the world's population grows, there is an increased need to invest in new and greater infrastructure to support the population and economic growth. In addition, the completion of the Trade and Co-operation Agreement between the UK and EU creates greater certainty in the UK and European market.

The long-term trends in the UK and European construction market remain positive with strong underlying market drivers, providing the Group with significant opportunities for growth.

Performance in 2021

The Group's potential production capability is approximately 165,000 tonnes. In 2021, Group revenue of £363.3m represented an 11 per cent increase, reinforcing our market-leading position and the continued delivery of our strategic objectives. This strong performance has been achieved despite the challenges faced due to the pandemic and reflects an increase in order flow (£20.0m), together with the full-year effect of the Harry Peers acquisition (£12.0m), which was acquired in October 2019, and one month's trading from the recently acquired DAM Structures (£3.9m).

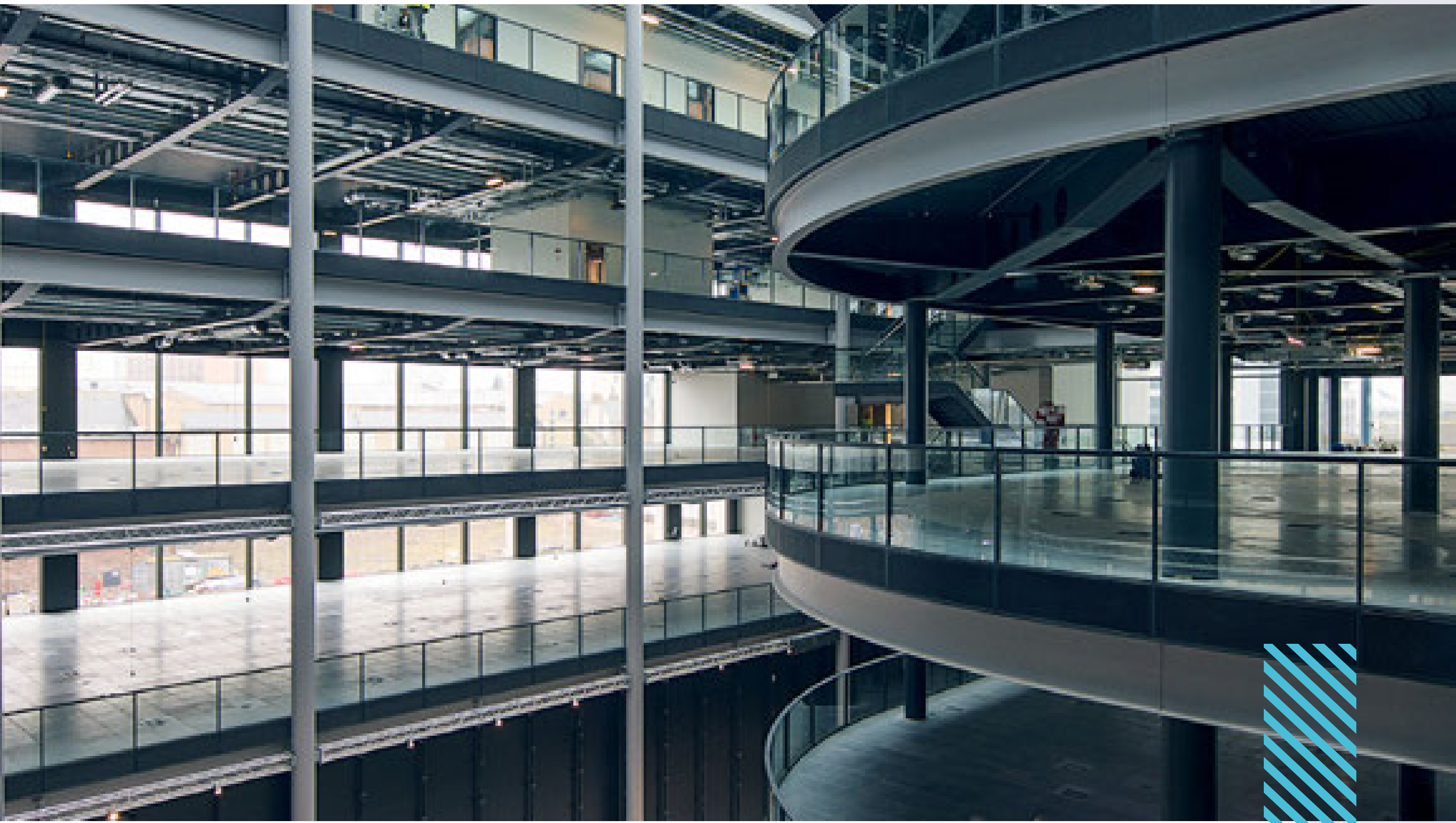
In 2021, we further increased our market share in certain sectors, including industrial and distribution and nuclear, and maintained our strong share of the data centre and stadia and leisure sectors. The Group's recent acquisition of DAM Structures provides the Group immediate access to attractive, complementary market sectors with strong growth potential, including in propping, railway and steel piling markets (as noted above) and is another step in the implementation of the Group's strategy, enhancing our position as the UK's broadest structural steel services group.

Outlook

We remain very encouraged by the current level of tendering and pipeline activity across the Group, both in the UK and in Europe. We continue to see a good number of opportunities, albeit some at tighter prices given the current market conditions, in our key market sectors, including in the industrial and distribution, transport infrastructure, stadia and leisure, nuclear and data centre sectors. Looking slightly further ahead, although we are now much less reliant on this sector, we are now starting to see more bidding activity in the commercial office market, including in London, a trend which we expect to increase over the next few years, given that some of the challenges recently experienced by this sector are now starting to abate. As a diverse, innovative Group, with expertise in managing complex projects and offering a wide range of structural steel solutions across a wide range of sectors, we are well placed to capitalise on these positive opportunities and provide a sustainable solution as the UK government progress their agenda to 'build back better'.

As a key component of economic growth, the construction industry will be central to a sustainable recovery from the effects of COVID-19. New, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth, including the UK government's National Infrastructure Strategy ('NIS'), which sets out plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050.

This plan will provide increased funding of £640 billion for UK infrastructure projects, including future work for HS2 and investment programmes for Highways England. In addition to HS2, the rail industry is transitioning from one Network Rail control programme ('CP5') to the next ('CP6'). This latest programme has a total budget of £53 billion (2019–2024), 39 per cent higher than CP5, and includes a significant amount of rail electrification work. Similarly, unprecedented levels of expenditure is anticipated on the second Road Investment Strategy ('RIS2'), which has been increased by a further £2 billion to deliver additional projects, including the Lower Thames Crossing.



We continue to make good progress with several of these significant infrastructure opportunities, particularly with HS2, road bridges and rail electrification programmes, and remain well positioned to win work in the transport sector given the Group's historical track record and our in-house bridge capability, together with the in-depth expertise of the recently acquired DAM Structures.

Order book

Despite the challenges associated with COVID-19, we have secured a significant value of new work over the past 12 months. This has resulted in a UK and Europe order book at 1 June 2021 of £301m (1 November 2020: £287m), of which £241m is for delivery over the next 12 months, and only c. 25 per cent of the Group's order book represents commercial offices, compared to the more normal previous range of 30 to 35 per cent and a peak of 60 per cent around four years ago, showcasing the benefits of our strategic diversification. This leaves the Group well-positioned with a strong future workload for the 2022 financial year and beyond.

Market output for structural steelwork in the UK

683,000 tonnes*

(2020: 856,000 tonnes)

Group production

95,000 tonnes

(2020: 95,000 tonnes)

Group potential capacity

165,000 tonnes

(2020: 150,000 tonnes)

UK and Europe order book

£301m

at 1 June 2021

(£287m at 1 November 2020)

* As measured by the British Constructional Steelwork Association ('BCSA').
** Based on the latest survey from independent market research consultants Construction Markets.

THE MARKETS WE SERVE

INDIA

AN INCREASED ORDER BOOK, STRONG PIPELINE OF POTENTIAL ORDERS AND EXISTING CLIENT RELATIONSHIPS LEAVE JSSL WELL POSITIONED ONCE THE CURRENT DISRUPTIVE EFFECTS OF COVID-19 SUBSIDE

Positive long-term growth predictions

The Group's joint venture in India, JSW Severfield Structures Limited ('JSSL') is an important part of its overall strategy. The Group holds a 50 per cent shareholding in JSSL alongside its partner JSW Steel Limited ('JSW'), India's largest steel producer. JSSL also has an interest of 67 per cent in a metal decking business, JSWSMD Limited.

2021 performance

The Indian joint venture ('JSSL') has shown its resilience against COVID-19 in the 2021 financial year. The company has continued its recovery from the disruptive effects of the pandemic and after a difficult first half, maintained a largely break-even profit position in H2. The impact of COVID-19 is evident in JSSL's loss for the year which reflects a reduction in revenue to £48.0m, compared to £109.3m in the previous year, and an operating margin of 3.3 per cent, compared with 8.5 per cent in the previous year. Financing expenses of £3.4m (2020: £2.9m) turn JSSL's operating profit of £1.6m (2020: £9.3m) into a loss before tax for the year of £1.8m (2020: profit before tax of £6.4m), of which the Group's after-tax share was £0.7m (2020: share of profit of £2.2m).

Total output for 2021 was much reduced at 35,000 tonnes compared to 96,000 tonnes in the previous year, reflecting the impact of COVID-19 on operations at Bellary. Despite the disruption, JSSL's health and safety record remained excellent with only one lost time incident ('LTI') recorded in the year. The safety performance of the business has been recognised in previous years, resulting in many certificates and awards from clients and health and safety organisations in India.

Market developments

The return to more normal trading conditions in India is being considerably disrupted by the ongoing second wave of COVID-19. Despite the ongoing COVID-19 challenges, JSSL's clients have continued to place orders, resulting in an order book which has increased to a record high of £140m (1 November 2020: £98m). This reflects several recent commercial awards (a large data centre in Chennai and commercial offices in Bangalore, Hyderabad and Navi Mumbai) and some large industrial projects for JSW. In terms of mix, 68 per cent of the order book represents higher margin commercial work, with the remaining 32 per cent representing industrial projects, mainly for JSW.

JSSL's pipeline of potential orders continues to include several commercial projects for key developers and clients with whom it has established strong relationships. JSSL is also developing formal strategic alliances with certain key clients, mainly for commercial, data centre and healthcare projects. This, together with the step up in the order book, leaves the business very well positioned in the market once the current COVID-19 wave subsides.

JSSL

Despite the recent challenges of COVID-19, JSSL is well positioned for future market expansion. Since its inception over ten years ago it has built up a reputation as the number one design and build structural steel company in India, providing a full design, fabrication and site construction service. This fully integrated and expert offering gives clients, developers, architects, consultants and contractors confidence that complicated and changing project requirements can be delivered on time and within budget.

Through its performance and know-how, JSSL has established excellent strategic relationships with major construction players, positioning it well for the future.

JSSL has also established a network of strategic suppliers and subcontractors which it continually audits for health, safety, quality and assurance purposes, to support the further supply of certain fabricated steel products, all of which contribute to overall revenues.

Current and future operations

JSSL's operations are based on a 65-acre site in Bellary, Karnataka. The plant has been designed to optimise JSSL's 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 a growing workforce containing highly qualified, experienced people. Bespoke plated products and INDISEC® are manufactured on-site, offering clients a range of benefits.

Depending on mix, the capacity of the Bellary facility is c.90,000 tonnes per annum. The key characteristics of the plant are as follows:

- The original configuration was two fabrication lines. Four narrower fabrication lines have been added in new factory space, following completion of the expansion in 2020. These service JSSL's target commercial and industrial sectors of multi-mix commercial, healthcare, data centres, retail and the industrial and manufacturing sectors.
- A further INDISEC® plated beam line was added in 2020 to the existing two plated beam lines, together with a bit shop and additional painting facilities.

Outlook

Whilst the short-term situation continues to be challenging due to COVID-19, the medium and longer-term growth predictions for India remain very positive. With JSSL's holistic design and build capability, its operational capability and capacity and its established network of suppliers and contractors, it is well set to take further advantage of both economic and sector growth and further growth through the continued conversion of the market from concrete to steel.

Overall, we remain positive about the long-term development of the Indian market and of the value creation potential of JSSL, especially considering the significant structural changes made in India over recent years, the government's ongoing focus on the 'ease of doing business', and the significant production capability of the business following the Bellary expansion in 2020.

A record India order book of

£140m

at 1 June 2021

(£98m at 1 November 2020)

Group after-tax share of loss

£0.7m

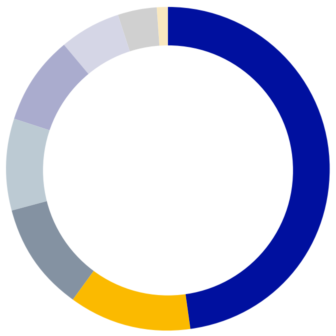
(2020: share of profit of £2.2m)

OUR MARKET SECTORS

We have the design skills, engineering skills and experience to handle complex projects over a diverse range of market sectors, whether for work, industry, leisure, transport or to provide essential infrastructure.

Our sectors

The market sectors targeted by the Group, and their estimated size in tonnes during the 2020 calendar year are shown below (as defined by the BCSA):



	Percentage	Tonnes
All industrial (including distribution)	48%	330,000
Commercial offices	12%	83,000
Power and energy	11%	79,000
Transport (including bridges)	9%	61,000
Health and education	9%	60,000
Other	6%	39,000
Leisure	4%	25,000
Retail	1%	6,000
	100%	683,000

Constructional steel output in the 2020 calendar year reduced from 858,000 tonnes in 2019 largely due to the disruptive impact of COVID-19. The market is forecast (per the BCSA) to recover to c.800,000 tonnes in 2021 and c.850,000 tonnes in 2022.

Core infrastructure sectors

Transport
5-10%
Group market share (for infrastructure including bridges)

Our expertise includes international airports, road and rail facilities and bridges. Many of the structures we create become famed landmarks in their own right. Services range from design, planning and high-volume steel supply, to fabrication and construction. As a key element of the UK's infrastructure, bridge-building requires skill, precision and quality on a large scale. Our growing bridge business has a strong reputation and extensive experience in the successful delivery of all types of bridgework, including major transport routes.

Successes

Multiple contracts with Heathrow Airport, Manchester Airport, London Bridge, Manchester Victoria and Birmingham New Street stations, Ordsall Chord (link bridge between Manchester's Victoria and Piccadilly stations), Ely Southern Bypass, M8 footbridge and Barking Riverside bridge.

Power and energy
<5%
Group market share

Power stations, sustainable energy facilities and waste processing plants form an important part of our business. Our professionalism, extensive sector experience and ability to meet specific engineering requirements enable us to continue serving these vital sectors in the UK and other parts of the world. The acquisition of Harry Peers also provides greater access to this market sector.

Successes

Essex and Milton Keynes waste treatment plants, Peterborough, Cardiff and Covanta (Dublin) Waste to Energy plants, Port of Liverpool Biomass Terminal, Ferrybridge Power Station.

Health and education
<5%
Group market share

We have a long history of providing world-class steel solutions for hospitals and other medical facilities, which are increasingly being specified with structural steel frames. Key factors giving us an advantage in this sector include span length, enhanced flexibility, adaptability and speed of construction. We have also worked with many education clients and contractors over the years, each project bringing its own specific requirements and challenges.

Successes

Francis Crick Institute, Nigeria Syringe Factory, University of Strathclyde, Victoria & Albert Museum (Dundee), Kings College Hospital, Graphene Innovation Centre, Manchester University Engineering Campus.

Core construction sectors		
Commercial offices **20-30%** **Group market share** →	Through our work in the commercial office sector, we have made a significant impact on the cityscapes of London and other major commercial hubs around the UK and Europe. We ensure our structural steel methods, products and processes keep up with the needs and challenges of this rapidly evolving sector.	**Successes** 22 Bishopsgate, Google UK Headquarters, Sky Studios, Kings Cross P2, The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, St Giles Circus Development, Hanover Square Masterplan, One Braham, Bankside Yards and numerous smaller developments both in London and the UK regions.
Industrial and distribution **10-20%** **Group market share** ↑	The Group is a trusted partner to the industrial, warehousing and distribution industries, thanks to our strong reputation for engineering excellence and versatility. Unrivalled capacity, the ability to meet diverse and rigorous requirements and other strengths such as design capability, supply chain co-ordination and delivery speeds set us apart from our competitors.	**Successes** Major contracts for BMW, Unilever, Sports Direct, Ocado, ASDA, Sainsbury's, Prologis, Gazeley, Jaguar Land Rover, Rolls-Royce, DHL and B&M and large industrial facilities in the Republic of Ireland, Swindon and Littlebrook.
Stadia and leisure **30-40%** **Group market share** →	Stadia and leisure complexes are important sectors for the steelwork industry. The Group has an unrivalled record in the design, engineering and building of many of the UK's best-known sporting hubs. We have also provided timely and cost-effective solutions for key leisure destinations, ranging from exhibition and conference centres to state-of-the-art concert arenas.	**Successes** Wimbledon Centre Court (roof) and No.1 Court roof, Paris Philharmonic Hall, First Direct (Leeds) Arena, Olympic Stadium, Arsenal FC (Emirates Stadium), Liverpool FC (redevelopment of Anfield Stadium), Manchester City FC (south stand redevelopment), Tottenham Hotspur F.C. (new stadium), Lord's Cricket ground (Compton and Edrich stands), Fulham FC.
Retail **<5%** **Group market share** →	Retail developments are becoming increasingly complex and ambitious as towns and cities position themselves as attractive shopping destinations in today's competitive economy. Major redevelopment in cities and out-of-town shopping facilities are challenging projects in their own right, requiring different skills and services. Project management and supply chain linkage are vital to successful project execution.	**Successes** Bradford's Westfield Shopping Centre, Stratford's Westfield Shopping Centre, Cherry Park Development, Hereford Old Livestock Market, Birmingham John Lewis, Bracknell's The Lexicon, Coal Drops Yard and projects for ASDA, Sainsbury's, Tesco, Morrisons and Costco.
Data centres and other **20-30%** **Group market share** ↑	Data centres are an ever-growing part of the business world. In recent years, they have become increasingly important to businesses of all sizes as they look for cost-effective alternatives to high in-house IT and other costs. With a large proportion of data centres being specified in steel, the Group is well placed to meet the needs of this rapidly expanding sector, and our cost, speed and flexibility have resulted in several key contract awards.	**Successes** Data centres for Microsoft (Amsterdam), Telehouse (London), large data centres in the Republic of Ireland, Belgium and Finland. Other projects include a research facility for the European Spallation Source (Sweden), multiple contracts with Sellafield and the Atomic Weapons Establishment ('AWE'), and processing projects with Centrica and water distillation specialist, SNF.

Key: Global market future trends ↑ Upward trend ↓ Downward trend → No change

ENGAGING WITH OUR STAKEHOLDERS

We maintain regular dialogue with our key stakeholders so that we can take account of their views and act with regard to their interests.

Detailed below are the ways in which the Group as a whole engages with our stakeholders and more information can be found in the governance report which describes how the board engages with its direct stakeholders: the Group's shareholders, employees, clients, suppliers and funders.

Our culture

We believe that a healthy corporate culture is vital to the creation and protection of long-term value and the success of our business model is driven by our culture, which is founded on our core values: safety, customer focus, integrity and commitment.

Our culture is characterised by a respect for our talented people, a desire to deliver the best possible outcomes for our colleagues, clients and partners, the encouragement of openness and transparency, a collaborative approach towards working with our customers and our supply chain, and a regard for the value we can bring to local communities and the environment. All new employees receive a formal induction and are made aware of our core values and culture.

We believe that through our recruitment, performance management and reward processes, we support and encourage behaviours consistent with the Group's purpose, values, strategy and culture. These principles are driven by the board and embedded in the culture and operations of all Group companies.

Information on our performance against our safety, health, environmental and people objectives can be found in our 2021 'building a sustainable business' report.

During the last 12 months, with the continuation of the COVID-19 pandemic, we have continued to see the value to the business of our culture, and our people have really come to the fore to enable us to continue to carry on trading as normally as possible. We have continued to hold regular video conference calls with the executive team and the board and to frequently communicate with those working from home. During this period, we issued several communications with advice on working from home, including how to cope with certain mental health issues arising from the crisis itself, as well as information on the practicalities of working from home.

Our key stakeholders

Our shareholders

Our executive directors communicate regularly with institutional investors and analysts and all shareholders are invited to the Group's annual general meeting. Our non-executive directors are also available to meet with shareholders. The Group's website provides an important resource for communications to all stakeholders, with a specific section dedicated to investors. The Group provides regular updates on financial performance and significant events using a regulatory information service and responds to queries received from shareholders.

Our people

We keep our employees informed of our financial performance through newsletters, emails, an intranet and briefing sessions, and let them know of any external factors and significant events that might have an impact on them. During the COVID-19 outbreak in particular, we have communicated regularly with our staff via a dedicated online information hub relating to the crisis through our intranet platform. We offer share plans to employees (including the opportunity to save for three years under our SAYE scheme) to encourage them to engage with business performance and progress.

Each Group company updates its employees on business goals, market conditions and company performance. Business-specific employee roadshows are held throughout the year and employees are invited to give their views and provide feedback on a range of topics.

This year we are launching a comprehensive engagement programme via a series of voice forums and have appointed Louise Hardy as our workforce engagement director to ensure that the views of our staff are represented in the board room.

Our suppliers and subcontractors

We develop long-term relationships with our supply chain and work with them to achieve the best results for our clients. Most of our suppliers are signed up to Group-wide agreements. We have a structured timetable of senior contact with suppliers of strategic importance and hold regular meetings with suppliers, covering a broad range of topics, including identifying and managing any incidents of modern slavery. We have a comprehensive Group-wide supplier accreditation process which involves reviewing and scoring supplier performance on criteria such as quality and safety and providing them with constructive feedback. Subcontractors who achieve preferred status benefit from long-term relationships and repeat work. Our policy is to treat our suppliers and contractors fairly and with respect, which includes paying our supply chain promptly. Our three main businesses are all signatories of the Prompt Payment Code ('PPC') and for the PPC reporting period of 1 October 2020 to 31 March 2021, all of the Group's businesses that are PPC signatories reported at least 95 per cent of our suppliers and subcontractors were paid within 60 days.

Our clients and partners

Our proven ability to work collaboratively and innovatively with clients is fundamental to our success and is critical to securing new work. This involves early contract engagement with clients, anticipating the issues they face, providing problem-solving solutions and delivering the best results to balance time, cost and quality objectives, whilst ensuring that risk and reward are appropriately shared.

Our aim is to secure work where possible through partnerships, framework arrangements or repeat business. We nurture long-term relationships with our clients and partners, which can be achieved by taking the time to understand their priorities and then delivering on their project goals.

On completion, clients are asked for feedback on their experience in face-to-face interviews using detailed questionnaires. The results are shared and analysed, in order to drive further improvements. We are recognised for our collaborative approach and positive engagement and are regularly involved in early contract engagement with clients to ensure greater clarity around scope, programme and cost which, in combination, reduces delivery risk for all parties.

Local communities

Engagement with the wide range of communities in which the Group operates is recognised as an important part of the delivery of our projects and is referenced where appropriate in reports to the board throughout the year. Our directors have taken up opportunities to learn more about engagement with community stakeholders on specific projects through our programme of site visits.

Through social and charitable committees within each business and through the Severfield Foundation we get involved with and raise money for local events, such as school or college talks or careers fairs, or supporting local charities. More details of the work of the Severfield Foundation can be found on page 70.

CHERRY PARK

Forming part of the continuing redevelopment of the famous Westfield retail centre, this project includes an extension to the existing retail space as well as providing support structures for new facilities.

This project is part of the exciting redevelopment of the Westfield Stratford City retail and leisure area in Stratford, London, with Severfield's involvement focusing on three main components. The largest was a three-storey structural steel extension to the existing shopping centre, including large transfer steelwork to support further concrete structures above. The Group also provided two large steel transfer frames designed to take the load of a new concrete structure down through the existing structure, as well as structural support to existing buildings.

The Group was responsible for structural connection design, fabrication and erection of c.1,800 tonnes of structural steel, with 'Seversafe' railings used throughout to provide safe temporary handrails for the ongoing works.

Working around the existing shopping centre was challenging, with the erection programme constrained by both the lack of physical space on site and the allowable plant loadings. For the largest plate girders, the weight exceeded the capacity of the on-site telehandlers and required the use of a strand jack to lift them from the slab above. The Westfield retail space remained fully operational throughout the build programme, and welcomed thousands of visitors on a daily basis, however, the project team had to carefully plan their erection programme when installing the new sections which had to connect to existing columns.

To ensure this area of the shopping centre could remain operational, temporary works were installed, and these had to be made water-tight and fire protected. This ensured the connection work could be undertaken safely and successfully.

Location
Stratford, London

Client
Westfield Europe Limited

Engineer
Walsh Group

Architect
PRP Architects LLP

Tonnage
1,800

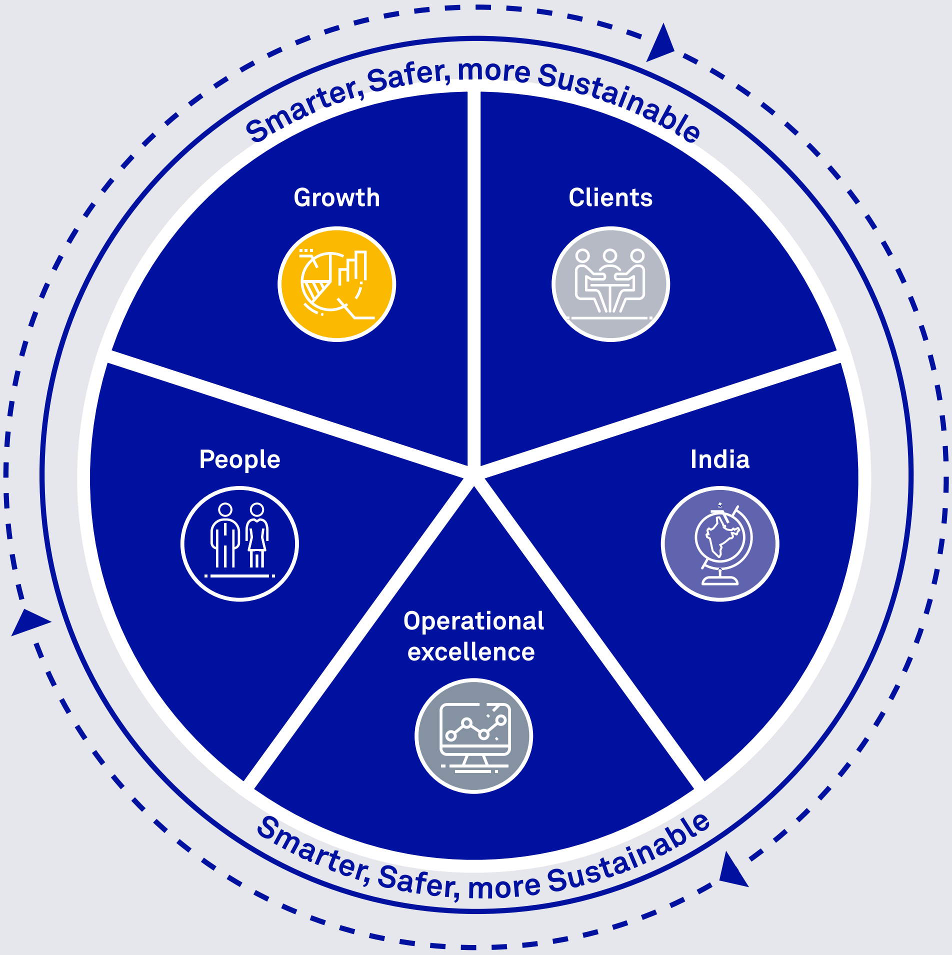
Completion date
January 2021

OUR STRATEGY

OUR PURPOSE IS TO DEVELOP BETTER WAYS TO BUILD, FOR A WORLD OF CHANGING DEMANDS. WE WILL ACHIEVE THIS THROUGH THE GROUP'S STRATEGY WHICH IS FOCUSED ON ITS CORE STRENGTHS OF ENGINEERING AND CONSTRUCTION IN THE UK, REPUBLIC OF IRELAND AND CONTINENTAL EUROPE.

Our well-established strategy is unchanged, focused on growth, both organic and through selective acquisitions, operational improvements and creating further value in JSSL. This is supported by an emphasis on five key elements and assisted by our business improvement programme, 'Smarter, Safer, more Sustainable'.

Our business improvement programme represents the consolidation of all the Group's ongoing improvement projects, established to help us deliver the Group's overall strategy. These include improvements in business processes, use of technology, manufacturing efficiencies, quality control, cost reduction programmes and new product development, all set within the framework of strong risk management and control. The progress we have made on these initiatives have served the Group well during the pandemic.



Smarter

Improve how we deliver our projects with speed, efficiency and accuracy.

What we'll do
Invest in activities to drive operational excellence, improved efficiency, and quality.

What this will mean for us
Further development of our expertise, quality and an improved offering to clients.

Safer

Continue our relentless focus on safety and always think 'safety first'.

What we'll do
Introduce new technology and equipment that enables safer ways of working.

What this will mean for us
Safeguard employees, clients and shareholders.

More Sustainable

Focus on working sustainably and reducing our environmental impact and carbon emissions.

What we'll do
Invest in technology that reduces our energy consumption and emissions.

What this will mean for us
Care for our environment whilst building our external reputation.

Strategic pillar	Link to KPIs	Link to principal risk
Growth Our aim is to capitalise on growth opportunities, both in the UK and in Europe, and to maximise our market share. Read more on page 34	1 2 3 5 6	1 2 3 4 5 6
Clients By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction. Read more on page 36	1 2 3 5 6	1 2 3 4 5 6
India Our aim is to build value in JSSL and we remain very positive about the long-term development of the Indian market. Read more on page 37	2 5	4 7
Operational excellence Our emphasis is on delivering high-quality projects and reducing costs by driving excellence through our core business processes. Read more on page 38	1 2 4 5	1 2 3 4 5 6
People Our people are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals. Read more on page 40	1 2 3 4 5 6 7	1 3 4 8

Key performance indicator reference number

1. Underlying operating profit and margin (before JVs and associates)
2. Underlying basic earnings per share ('EPS')
3. Revenue growth
4. Operating cash conversion
5. Return on capital employed ('ROCE')
6. Order book
7. Injury frequency rate ('IFR')

Key to principal risks

1. Health and safety
2. Supply chain
3. Commercial and market environment
4. COVID-19
5. Cyber security
6. Failure to mitigate onerous contract terms
7. Indian joint venture
8. People

OUR STRATEGY

In 2021, we continued to make good operational and strategic progress, helping to generate sustainable long-term value for our stakeholders.

Growth

Our aim is to capitalise on growth opportunities, both in the UK and Europe, and to maximise our market share.

Strategic priorities

Increase UK market share:

Growing profitable market share in areas where the business already operates.

Enter new UK market sectors:

Looking for new market areas where the business has not operated in the past, taking advantage of our existing capacity and capabilities.

Growth in Europe:

Continue the momentum of recent contract successes in Europe, building strong, lasting relationships with European clients, to drive growth through our European business and our core business in the UK.

Achievements in 2021

Increased Group revenue by 11 per cent, despite the headwinds of COVID-19. This represents a 30 per cent increase in revenue over the last three years, reflecting the benefit of our significant market sector, geographical and client diversification over recent years.

Achieved an underlying profit before tax of £24.3m (2020: £28.6m), despite the COVID-19 related disruption to the Group's operations in Q1, demonstrating the resilience of the Group's operations.

The UK and Europe order book at 1 June 2021 stands at £301m. This reflects a balanced order book, containing a healthy mix of projects across our chosen sectors and leaves the Group well-positioned with a strong future workload.

Entered attractive, complementary new UK markets through the recent acquisition of DAM Structures.

Continued the integration of Harry Peers, acquired by the Group in the 2020 financial year, and maintained our market share in the growing nuclear sector. These recent acquisitions have increased our targeted market sectors from eight to ten.

Continued to invest in organic growth, further developing our 'Severstor' and 'Rotoflo' product ranges launched in the prior year. This investment resulted in these new products generating revenue of c.£2m, a growing number of orders across an expansive customer base, and an attractive pipeline of potential orders.

Objectives for 2022

Continue to grow Group revenue, maintain our strong balance sheet and the quality of the order book to deliver sustainable growth.

Increase our market share in existing UK and European market sectors where the Group already has specialist expertise (at good margins and with acceptable levels of risk) to deliver sustainable shareholder value.

Target new, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings), supporting the UK's economic recovery from the effects of COVID-19.

Identify further opportunities for growth, both organically and through selective acquisitions, to further enhance the services we can offer.

Make continuous incremental improvements, driven by our 'SSS' initiatives, to remain competitive in our chosen markets.

Continue to develop the product offering at CMF, taking advantage of the expansion of the business which is currently underway.

150 HOLBORN

The project

The new 185,000 square foot mixed-use development will include office space over eight floors for an international consulting group, retail units on the ground floor and 13 residential apartments. Severfield were awarded the supply, fabrication and erection of all structural steelwork to this development including the structural steel frame, metal decking, shear studding and off-site fire proofing.

Key aspects of the project are the bespoke feature roof which slopes down the rear elevation of the building, along with an architectural scenic lift and an atrium with an 85-tonne feature staircase in the core of the development. The feature elements provided a significant engineering and logistical challenge, given both the bespoke nature of the steelwork as well as the city centre site location. Careful planning and close working with the main contractor and other service providers was required as the site is situated in a no-laydown area. As such, all steelwork had to be delivered on a just-in-time basis, with abnormal loads for the lift shaft, in particular, requiring extra care and attention.

The Group also supplied c.2,800 metres of 'Seversafe' edge protection. This safety feature was considered to be crucial to this project given the city centre location with a busy public footpath running alongside the construction site.

Location
Holborn, London

Main Contractor
McLaren Construction

Engineer
Clarke Nicholls Marcel

Architect
Perkins & Will

Tonnage
1,400

Completion date
October 2021

OUR STRATEGY

Clients

By understanding, anticipating and responding to client needs we aim to build secure, sustainable and mutually valuable relationships and create lasting client satisfaction.

Strategic priorities

Quality of service:

Our industry experience allows us to better understand our customers' own strategic objectives and enables us to design, fabricate and construct structural steelwork solutions to support these objectives.

Innovative engineered solutions:

The world of work and industry are constantly evolving, in response our teams strive to be habitually innovative. Our engineers are known for their remarkable ingenuity, consistently pushing boundaries to create better buildings.

Achievements in 2021

Delivered on over 100 projects during the year in the UK, Ireland and continental Europe in diverse market sectors, including industrial and distribution, data centres, nuclear and commercial offices.

Further strengthened our relationships with key clients and worked closely with them to ensure the disruption caused by COVID-19 was minimised.

Continued to add value to our clients and their projects. Our skilled teams engage early with all clients, anticipating the issues they face, providing problem-solving solutions and delivering the best results to balance time, cost and quality objectives, whilst ensuring that risk and reward are appropriately shared.

During the year, we completed the acquisition of DAM Structures, whose core business involves on-site work with main contractors and demolition contractors. This has allowed us to establish relationships with customers, both new and existing, at an earlier stage of the project life cycle than the Group, in the past, would typically have become involved.

Listened and responded to feedback received from our clients on their experience of working with Severfield, during face-to-face interviews, and used this to shape further improvements across the business.

In 2021, we continued to invest in our capability to provide our clients with innovative, engineered solutions and have established a central engineering team, under the leadership of our new Group engineering director.

Continued to build new client relationships across the UK and Europe, resulting in further opportunities, including in smaller projects in the UK.

Objectives for 2022

Continue to deliver a quality, safe and efficient service to our clients.

Focus on opportunities to improve client satisfaction and retention and develop strategically important relationships with existing and new clients in our target markets in support of our growth plans.

Continue our focus on engineering efficiency, including looking at new and innovative ways of working, our approach to drawing and design, and the optimisation of engineering software.

Strive to secure work, where possible, through partnerships, framework arrangements or repeat business.

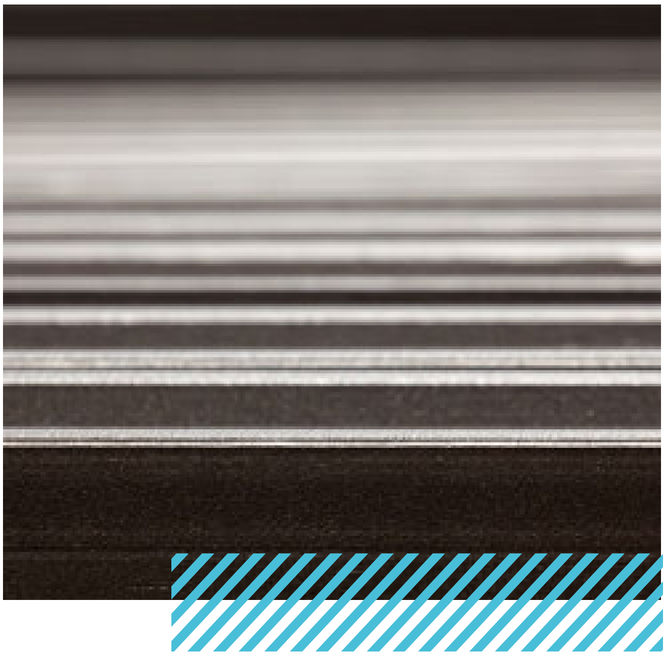
Build relationships with new clients as we continue to extend our new modular product ranges and further enhance our 'Severstor' and 'Rotoflo' product offerings.

Aim to satisfy the requirements of a wider customer base through the increased cold rolled steel products offered by our joint venture, CMF.

India

Our aim is to build value in JSSL and we remain very positive about the long-term development of the Indian market.

Strategic priorities	Achievements in 2021	Objectives for 2022
Value creation in India: Our aim is to develop and build value in the business whilst the market continues its conversion from concrete to steel and its recovery from the effects of the pandemic	JSSL reported a record order book of £140m at 1 June 2021 (1 November 2020: £98m), reflecting the strong underlying demand for structural steel in India. This contains an encouraging mix of 68 per cent higher margin commercial work and the remaining 32 per cent representing industrial projects, mainly for our joint venture partner, JSW. The business has continued its recovery from the effects of COVID-19 in 2021. Whilst this particularly impacted the H1 results, the business achieved a largely break-even profit position in H2. Established strong relationships with several key developers and clients for large commercial projects and developed formal strategic alliances with certain key clients, mainly for commercial, data centre and healthcare projects, ensuring the business is well-placed in the market once the current COVID-19 wave subsides.	Continue to respond quickly and decisively to the challenges of COVID-19 and to support our people, suppliers and clients during this time. Capitalise on the strong underlying demand in India for structural steel by continuing to grow the order book and leveraging the increased Bellary factory capacity. Strive to maintain the order book mix of higher margin commercial work, to benefit operating margins. Continue to invest in the management team, technical and operational staff to further drive efficiency improvements.



OUR STRATEGY

Operational excellence

Our emphasis is on delivering high-quality projects and reducing costs by driving excellence through our core business processes.

Strategic priorities

Drive operational improvements and efficiencies:

The objective of our comprehensive 'SSS' improvement programme is to further develop the Group's risk assessment, operational and contract management processes.

Invest in market-leading technology:

We will make this investment in the short and medium term to support the Group's ongoing requirements and for growth.

Achievements in 2021

Despite the challenges faced by the Group due to the pandemic, all our factories and sites have been operating at normal (pre-pandemic) levels, in line with government and industry guidelines, since June 2020.

The 2021 UK margin performance continues to reflect improvements to our operational execution, driven by our 'SSS' initiatives. These initiatives include:

- Continued focus on manufacturing efficiency and internal process improvements, including the application of Lean manufacturing techniques, optimisation of factory processes and production flows, quality control and cost reduction programmes.
- Implemented a new coatings management system, at our main production centre in Dalton, covering improvements to the specification, management and application of paint systems, which are becoming ever more complex and bespoke.
- Launched new software systems, including dashboards, workflow management and project-specific commercial and operational tools to better inform decision-making and improve efficiencies both in our factories and on our construction sites.
- Devoted skilled resource to reviewing and responding to developing technologies (including virtual reality) and are making good progress with the automation of repetitive tasks.
- In 2021, we established a central engineering team, under the leadership of our new Group engineering director. This team focuses on providing our clients with innovative, engineered solutions that meet all our clients' requirements.
- Upgraded IT systems and implemented the widespread use of Microsoft Teams across the Group to ensure we could continue to provide a high level of service to our clients.

From an ESG perspective, we improved upon previous climate-related targets by reporting a 21 per cent reduction in our scope 1 and 2 GHG emissions since 2020 and a reduction of 64 per cent since 2015, our baseline year (using a market-based approach).

The Group was included in the Financial Times inaugural listing of Europe's climate leaders (May 2021) which highlights the 300 companies that have achieved the greatest reduction in their GHG emissions between 2014 and 2019.

Maintained our 'B' rating in the CDP index and were awarded an 'A' in the CDP Supplier Engagement Rating, improving on our 'A minus' from the previous year.

Signed up to the SteelZero initiative in April 2021, further strengthening our commitment to reducing carbon emissions.

Invested £6.6m in capital expenditure as our capital investment programme continues to drive operational efficiencies and organic growth across the Group.

Objectives for 2022

Continue with our 'SSS' initiatives to maintain the Group's focus on business improvement and efficiencies, further optimising processes within our factories and production lines.

Further investment in capital expenditure across the Group to make our businesses more competitive and operationally efficient. We will continue to invest in excess of depreciation.

Continue our focus on engineering efficiency, including looking at new and innovative ways of working, our approach to drawing and design, and the optimisation of engineering software.

Further build upon the progress made this year rolling out our sustainability policy and developing a more sustainable business to ensure we achieve our target to become an operationally carbon neutral organisation in the 2021 calendar year.

Continue the progress made to date to ensure 100 per cent of our directly controlled facilities switch to green electricity.

SEVERSTOR AND ROTOFLO

During the year, the Group has continued to develop organically the new 'Severstor' and 'Rotoflo' product ranges, produced by Severfield (Products & Processing), allowing Severfield to go further in meeting customers' needs than ever before.

Severstor

Our Severstor units are robust, steel-framed modules that house critical systems equipment such as electrical switchgear and are designed to suit the requirements of our customers. They are supplied to a wide range of Original Equipment Manufacturer ('OEM'), Engineering, Procurement and Construction contracts ('EPC') as well as end users in the nuclear, infrastructure and rail sectors. They are built to ensure the safety and protection of the systems they house. Severstor provides customers with bespoke design, off-site build, system integration and site installation of these modules.

Although bespoke, Severstor units are suited to factory manufacturing, which allows for established and repeat processes to continually improve on efficiency. This also means we are consistent, with our high manufacturing standards delivering high quality, every time.

Rotoflo

The Rotoflo silo discharge unit provides highly efficient, reliable and controlled flow of powders and granular materials from bulk storage silos (including very cohesive materials), without incurring the complications, cost, or side effects associated with vibration or aeration. Rotoflo has been used globally since its inception in 2001 proving its performance and reliability time and again.

Since its inception at Portasilo more than a decade ago, the Rotoflo discharge unit has been continuously developed and improved in order to deliver major advances in materials handling technology. Following the acquisition of the intellectual property and patent from Portasilo in 2020, Severfield (Products & Processing) has now taken on the role of producing and delivering Rotoflo units to the world.

With the unit's track record in numerous applications already proving its reliability, and already specified by blue-chip international customers, our aim is to make Rotoflo the first choice globally for silo discharge in the powder and granular products handling industry.

OUR STRATEGY

People

Our people are at the heart of our business and are vital to the success of our vision and the achievement of our strategic goals.

Strategic priorities	Achievements in 2021	Objectives for 2022
Develop our people: Our aim is to attract and recruit the right person at every level and to keep them engaged so that we can deliver our goals and customer commitments whilst maintaining a safe working environment.	Maintained our 'safety first' core value across the Group. This assumed an even greater emphasis in 2021, against the COVID-19 backdrop. Continued our focus on mental health, in light of the pandemic. To support our people, we increased the level of Group-wide communications and encouraged the use of Microsoft Teams to facilitate regular video calls. Updated our succession plan, identifying future leaders from within the business. Launched our new intranet, SeverfieldConnect, allowing us to keep colleagues up to date on the Group's strategy, performance and progress of the organisation, general company news and health and wellbeing issues. SeverfieldConnect was also used to provide additional regular updates to colleagues and to provide practical advice and support during the pandemic, through a dedicated intranet page, Coronavirus Hub. Continued to invest in our people, through the continuous provision of training programmes, both internal and external courses. Further invested in training our team of 60 mental health first aiders and rolled out our enhanced Employees Assistance Programme, which includes the launch of a new app (My Healthy Advantage), to provide support and advice to colleagues on physical and mental wellbeing issues. Appointed Louise Hardy as the Group's workforce engagement director to ensure that the views of our people are represented in the board room. In June 2021 we welcomed the appointment of Rosie Toogood to the board, our second female board member. Increased employment across the Group to around 1,500 employees, which includes c.70 employees who joined us with the DAM Structures acquisition. Continued to promote our graduate and apprenticeship schemes, which are particularly focused on welders and technical staff, in particular our metal fabricator apprenticeship programme, which we developed in conjunction with the Institute of Apprenticeships. In 2021, we saw a positive and significant reduction in injury rates, resulting in an injury frequency rate ('IFR') of 1.48, compared to 1.81 in 2020.	Louise Hardy will lead a comprehensive workforce engagement programme, via a series of voice forums, to gather a deeper understanding of colleagues' perspectives on which to build a sustainable Group-wide approach for ongoing dialogue. Continue to share best practice across the Group in operational processes, technical knowledge, governance and compliance. Promote diversity and equality through employment practices, that are free from discrimination and in accordance with human rights principles. Continue to invest in the development, mental health and wellbeing of our people, including leadership and talent development initiatives. Launch a further employee Save As You Earn scheme. Maintain our focus on driving down our IFR rate to ensure we are continuing to drive the appropriate safety behaviours.

SEVERFIELD FOUNDATION: A RACE TO REMEMBER

After losing her nan to Alzheimer's disease, Sara Halliday Severfield's Sustainability Manager, decided to raise as much money as possible for the Alzheimer's Society to raise awareness of the disease. Spurred on by competitive friends, Sara set herself her first challenge of the Budapest marathon, but soon faced her first setback along her journey – having spent a gruelling five-and-a-half hours running, Sara was told she was too slow and had exceeded the official cut-off time of the race. Despite this disappointment, Sara was even more determined to complete a marathon in aide of the Alzheimer's Society and soon signed up for the London Marathon.

Once she'd begun training however, Sara faced twin obstacles: a knee injury and the postponement of the event due to the COVID-19 pandemic. Once it was announced that the London Marathon would be a purely virtual event, Sara approached the challenge with renewed enthusiasm. She ran her own route, using an official app to track her distance and time.

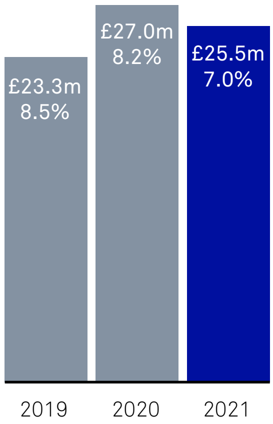
"As I approached my own little finish line, I was met by family, friends, and locals. They'd put a group together to cheer me on over the final mile. I also rang my friends that I'd run the Budapest Marathon with. It's safe to say it was a little emotional."

In fact, thanks to a glitch with the official app, Sara discovered that she'd truly gone the extra mile for her cause, completing 27.6 miles instead of the required 26.2 miles.

Sara continues to be committed to raising funds to support the Alzheimer's Society and has already started training for her next challenge, conquering the 2021 London and Budapest marathons on consecutive weekends, showing her characteristic dedication and desire to not let setbacks get the better of her in pursuit of her goal of greater dementia awareness.

KEY PERFORMANCE INDICATORS

1 Underlying* operating profit and margin (before JVs and associates)



Strategic pillar

Why this is important

This is the principal measure used to assess the success of the Group's strategy.

We are focused on driving growth in operating profit in order to drive higher and sustainable returns for our investors.

How we calculate

Underlying operating profit is defined as operating profit before non-underlying items and the results of JVs and associates.

Underlying operating margin is calculated as underlying operating profit expressed as a percentage of revenue.

Our performance

Despite COVID-19, which particularly impacted profitability in Q1 of FY21, we demonstrated our resilience with an underlying* operating profit (before JVs and associates) of £25.5m.

Stakeholder linkage

Shareholders

Employees

Strategic pillar key

Growth

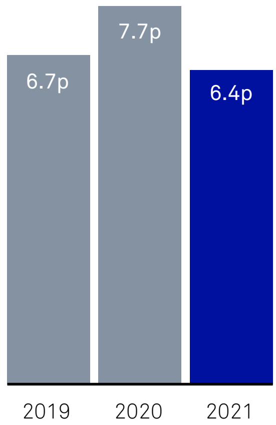
Clients

India

Operational excellence

People

2 Underlying* basic earnings per share ('EPS')



Strategic pillar

Why this is important

EPS is one of the key metrics in measuring shareholder value and a performance condition of the Group's performance share plan ('PSP').

The measure reflects all aspects of the income statement, including the performance of India and the management of the Group's tax rate.

How we calculate

EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.

Our performance

EPS has decreased by 17 per cent, reflecting the decreased underlying profit before tax in the year due to COVID-19.

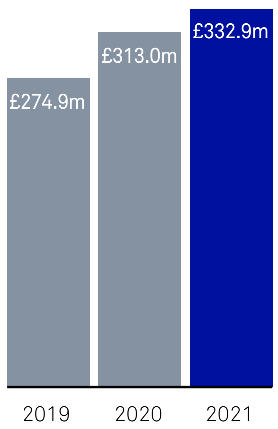
Stakeholder linkage

Shareholders

Employees

*The basis for stating results on an underlying basis is set out on page 06.

3 Revenue growth (on a like-for-like basis)



Strategic pillar

Why this is important

This is a key measure for the business to track our overall success in specific contract activity, our progress in increasing our market share and our ability to maintain appropriate pricing levels.

How we calculate

This represents the year-on-year percentage change in revenue from Group operations as reported in the accounts.

Like-for-like revenue excludes the revenue generated from the recent acquisitions of DAM Structures of £3.9m (2020: £nil) and Harry Peers of £26.5m (2020: £14.4m).

Our performance

Like-for-like revenue has increased by 6 per cent, reflecting an increase in order flow despite the COVID-19 headwinds. The Group's factories and sites in the UK and Europe are all fully operational, and we have been trading at normal (pre-pandemic) levels, in line with government and industry guidelines, since June 2020.

Stakeholder linkage

Shareholders

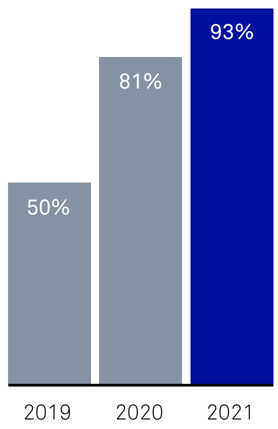
Employees

Clients

Suppliers

Communities

4 Operating cash conversion



Strategic pillar

Why this is important

Cash is critical for providing the financial resources to develop the Group's business and to provide adequate working capital to operate smoothly.

This measures how successful we are in converting profit to cash through management of working capital and capital expenditure.

How we calculate

Operating cash conversion is defined as cash generated from operations after net capital expenditure (before interest and tax) expressed as a percentage of underlying operating profit (before JVs and associates).

Our performance

Operating cash conversion was 93 per cent, exceeding our target conversion rate of 85 per cent.

Stakeholder linkage

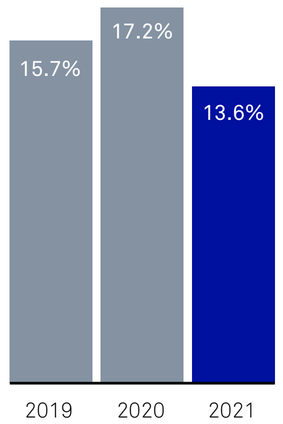
Shareholders

Employees

Suppliers

KEY PERFORMANCE INDICATORS

5 Return on capital employed (‘ROCE’)



Strategic pillar

Why this is important

ROCE measures the return generated on the capital we have invested in the business and reflects our ability to add shareholder value over the long term.

We have an asset-intensive business model and ROCE reflects how productively we deploy those capital resources.

How we calculate

ROCE is calculated as underlying operating profit divided by the average of opening and closing capital employed.

Capital employed is defined as shareholders’ equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds.

Our performance

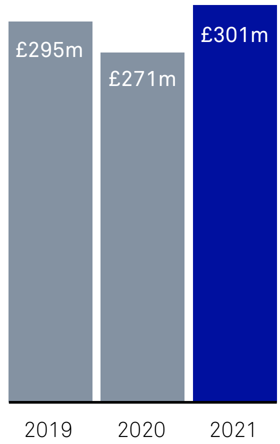
Despite the Group’s ROCE decreasing slightly in the year, reflecting the reduction in underlying operating profit, the Group continues to exceed our target of 10 per cent.

Stakeholder linkage

Shareholders

Employees

6 Order book



Strategic pillar

Why this is important

The order book is a key part of our focus on building long-term recurring revenue. It is an important measure of our success in winning new work.

Whilst the revenue within the order book is reported externally, the margin inherent within the order book is monitored internally to provide visibility of future earnings.

How we calculate

Our UK and Europe order book shows the total value of future revenue secured by contractual agreements.

Our performance

The UK and Europe order book stands at £301m at 1 June 2021, representing an 11 per cent increase since 1 June 2020. This solid order book position leaves the Group well-positioned to deliver on its strategic objectives.

Stakeholder linkage

Shareholders

Employees

Suppliers

Communities

Strategic pillar key

Growth

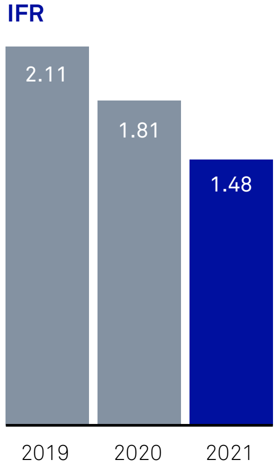
Clients

India

Operational excellence

People

7 Injury frequency rate ('IFR')



Strategic pillar

Why this is important

IFR is an industry-standard 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.

In recent years we have shifted our focus to the Group's injury frequency rate. IFR focuses on a variety of incidents, ranging from minor to potentially more serious. The Group's IFR has reduced over the course of the year, with targeted reductions in almost all areas of the business.

How we calculate

IFR is the number of reportable injuries per 100,000 hours worked.

Our performance

Our Group IFR of 1.48 continues to reflect the significant reduction in injury rates, despite the challenges faced in the year of implementing new safe operating procedures across all our sites and facilities.

Stakeholder linkage

Employees

OUR OPERATING PERFORMANCE

THE GROUP IS WELL POSITIONED TO MEET THE DEMAND FOR ONGOING INVESTMENT IN THE UK'S INFRASTRUCTURE

"The Group has coped well with the challenges presented by the COVID-19 pandemic and has achieved a resilient set of results for 2021."

ALAN DUNSMORE
CHIEF EXECUTIVE OFFICER

Group overview

Whilst the year has been dominated by the COVID-19 pandemic, the 2021 results demonstrate the resilience of the Group and serve to highlight its many strengths including the benefit of the strategic and operational progress made in recent years, the additional resilience provided by our market sector, geographical and client diversity, the skill and adaptability of our workforce and our strong financial position.

The Group has coped well with the challenges presented by COVID-19. This is reflected in an increased UK and Europe order book of £301m, increased revenues and good cash generation in 2021, which has enabled us to continue to pay dividends and support ongoing investment in the business, both organically and by acquisition.

In 2021, we increased our revenue by 11 per cent to £363.3m (2020: £327.4m) and are pleased with our profit performance and an underlying profit before tax of £24.3m (2020: £28.6m), which was achieved despite the COVID-19-related disruption that particularly impacted profitability through the under recovery of overheads in Q1. The Group's factories and sites in the UK and Europe are all fully operational, and we have been trading at normal (pre-pandemic) levels, in line with government and industry guidelines, since June 2020.

The 2021 results include the acquisition of DAM Structures, an innovative steel fabrication company, giving the Group immediate access to attractive, complementary market sectors with strong growth potential including the propping, railway and steel piling markets. DAM is integrating well into the Group's existing operations and has contributed revenue of £3.9m and a nominal profit for the one month of trading since its date of acquisition.

We have maintained a strong financial position throughout the year, allowing us to make the right decisions and take the right actions for the long-term benefit of the Group. Year-end net funds (on a pre-IFRS 16 basis) were £4.4m (2020: £16.4m), which includes the outstanding term loans of £20.7m (2020: £13.1m) for the DAM Structures and Harry Peers acquisitions.

The Indian joint venture ('JSSL') has continued its recovery from the disruptive effects of COVID-19. After a difficult first half, the company maintained a largely break-even profit position in H2 of 2021. The return to more normal trading conditions in India is being considerably disrupted by the ongoing second wave of COVID-19, which is currently impacting output in H1 of 2022. Notwithstanding this, JSSL's order book at 1 June 2021 has increased to a record level of £140m (1 November 2020: £98m), which, together with a strong pipeline of potential orders, is reflective of the strong underlying demand for structural steel in India.

Strategy

The Group's strategy is focused on its core strengths of engineering and construction in the UK, Republic of Ireland and continental Europe. This well-established strategy is unchanged, focused on growth, both organic and through selective acquisitions, operational improvements and creating further value in JSSL.

In recent years, the evolution of this strategy has been particularly evident in our significant market sector, geographical and client diversification, which has enabled us to successfully navigate periods of market softness in certain of our main sectors in the UK, notably commercial offices. This has resulted in a more balanced business and a resilience that has seen us successfully negotiate the headwinds of Brexit and the COVID-19 pandemic, facilitated revenue growth of c.30 per cent over the last three years and reinforced the Group's strong balance sheet and ability to generate cash, which have allowed us to continue to invest in our operations and in acquisitions through Harry Peers and DAM Structures.

As a result, our capabilities are applicable to many market sectors, which are expected to see increasing opportunities in the medium to long term. The Group is well positioned to meet the demand for ongoing investment in the UK's infrastructure, while our diverse construction activities remain focused on key areas such as industrial and distribution, data centres, stadia and leisure, nuclear and commercial offices. In India, despite the current challenges of COVID-19, we remain positive about the long-term trajectory of the market and of the value creation potential of JSSL, especially considering the structural changes in the economy over recent years, the government's ongoing focus on simplifying regulations and the 'ease of doing business', and the significant expansion of the business already evidenced to date, which has resulted in a business capable of producing over 100,000 tonnes of steelwork from one site in Bellary.

This platform provides Severfield with the capacity to deliver enhanced shareholder returns in the future and to fulfil our strategic growth aspirations.

Board change

In 2021, as part of our board succession planning process, we commenced a selection process for an additional non-executive director. This has resulted in Rosie Toogood being appointed to the board with effect from 16 June 2021. Rosie brings a wealth of manufacturing and engineering experience within the modular homes, aerospace and nuclear sectors to the board. She is currently CEO of L&G's modular homes business, having previously had a successful 25-year career at Rolls-Royce, progressing from a finance executive into procurement and technology positions, followed by a general management role, where she was executive vice president for the compressors division.

Specific actions in response to COVID-19

In managing our response to the pandemic, the primary focus has been on the health, safety and wellbeing of all colleagues, clients and the wider public, together with protecting the financial strength of the Group. During the year, all our factories and sites implemented new operating procedures, in accordance with national government, devolved administration and industry guidance, including changes to working practices, enhanced levels of cleaning, additional hygiene facilities and social distancing.

The Group's strong cash position has been carefully managed during the pandemic whilst ensuring that we continue to support our supply chain partners. Since 31 March 2020, the Group has continued to operate in a net funds position, maintaining significant amounts of cash headroom in banking facilities, which mature in October 2023.

Our strong financial position has also meant that, whilst we furloughed some of our workforce in Q1, all of whom have long since returned to work, we did not claim for support under any employee-related government support packages including the Coronavirus Job Retention Scheme.

During the year, the Group took advantage of certain permissions to defer VAT, PAYE and other tax payments. At the year-end, all these deferred amounts had been repaid and were fully up to date. In addition, borrowings of £15m, originally drawn down in late March 2020 under the Group's revolving credit facility ('RCF') as a precautionary measure in response to the COVID-19 outbreak, were repaid in June 2020.

UK and Europe

Revenue was up 11 per cent over the prior year, mainly reflecting an increase in order flow, and the full year revenue effect of Harry Peers, which was acquired in October 2019. During the year, we continued to work on a large industrial facility, which includes a bespoke paint package, and a large data centre, both in the Republic of Ireland, a large data centre in Finland, several large distribution facilities in the UK and one in Germany, the new stadium works at Fulham F.C. and the redevelopment of Lord's Cricket Ground (Compton and Edrich stands). We have also continued our work on the new Google Headquarters at King's Cross, together with several mid-sized office developments, both in London and the UK regions (including another project at King's Cross, Bankside Yards, the Assembly Buildings in Bristol, and Sky Studios in Elstree).

As expected, the disruption experienced by the Group due to COVID-19, both on its sites and within its factories, impacted 2021 profitability, particularly in Q1. Notwithstanding this, overall activity levels increased from the beginning of the first lockdown in March and returned to normal (pre-pandemic) levels from Q2 onwards. The subsequent regional and further national lockdown restrictions imposed in the second half of the year did not result in any further significant disruption or have a material impact on the Group's profitability.

The underlying operating margin (before JVs and associates) was 7.0 per cent (2020: 8.2 per cent), resulting in an underlying operating profit (before JVs and associates) of £25.5m (2020: £27.0m), which includes a one-off profit (the associated revenue is included in Group revenue) on the bespoke paint package on the large industrial facility in the Republic of Ireland (referred to above). Unsurprisingly, the disruptive effects of COVID-19 have resulted in the 2021 operating margin of 7.0 per cent falling below that achieved in the previous year; however, the margin in H2 recovered well and, looking forward, we expect the 2022 operating margin to be approaching to our normal range of 8 to 10 per cent, which was established pre-pandemic.

OUR OPERATING PERFORMANCE

Smarter, Safer, more Sustainable

The UK margin performance continues to reflect improvements to our operational execution. This includes the benefits from our programme of projects categorised under the banner of 'Smarter, Safer, more Sustainable' ('SSS'). These initiatives continue to focus on manufacturing efficiency and improving many aspects of our internal operations, including the application of Lean manufacturing techniques, optimisation of factory processes and production flows, quality control and cost reduction programmes, all of which have served the Group well during the pandemic.

During the year, we have continued the roll out of new software systems including dashboards, workflow management and project-specific commercial and operational tools to better inform decision-making and improve efficiencies both in our factories and on our construction sites. This includes the use of these systems on mobile devices to capture information at the point of use and to provide live information to operatives. As part of our digital transformation initiative, we are devoting skilled resource to reviewing and responding to developing technologies (including virtual reality) and are making good progress with the automation of repetitive tasks. COVID-19 has also allowed us to adapt to new ways of working including the adoption and widespread use of Microsoft Teams.

Engineering solutions are vital to our success, and our ability to deliver for our clients is dependent on us driving excellence throughout our engineering teams. In 2021, we have invested in this capability and have established a central engineering team, under the leadership of our new Group engineering director. This team is focusing on engineering efficiency, including looking at new and innovative ways of working, our approach to drawing and design, and the optimisation of engineering software, building on the previous work of our engineering forum.

We continue to invest in and streamline our factories, particularly at our main production centre in Dalton, where we are continuing to upgrade and expand our fabrication capability to improve the output and efficiency of these operations. During the year, we implemented a new coatings management system at Dalton covering improvements to the specification, management and application of paint systems, which are becoming ever more complex and bespoke. These improvements form part of the Group's ongoing capital investment programme, taking our capital investment in the Group to close to £50m over the last seven years.

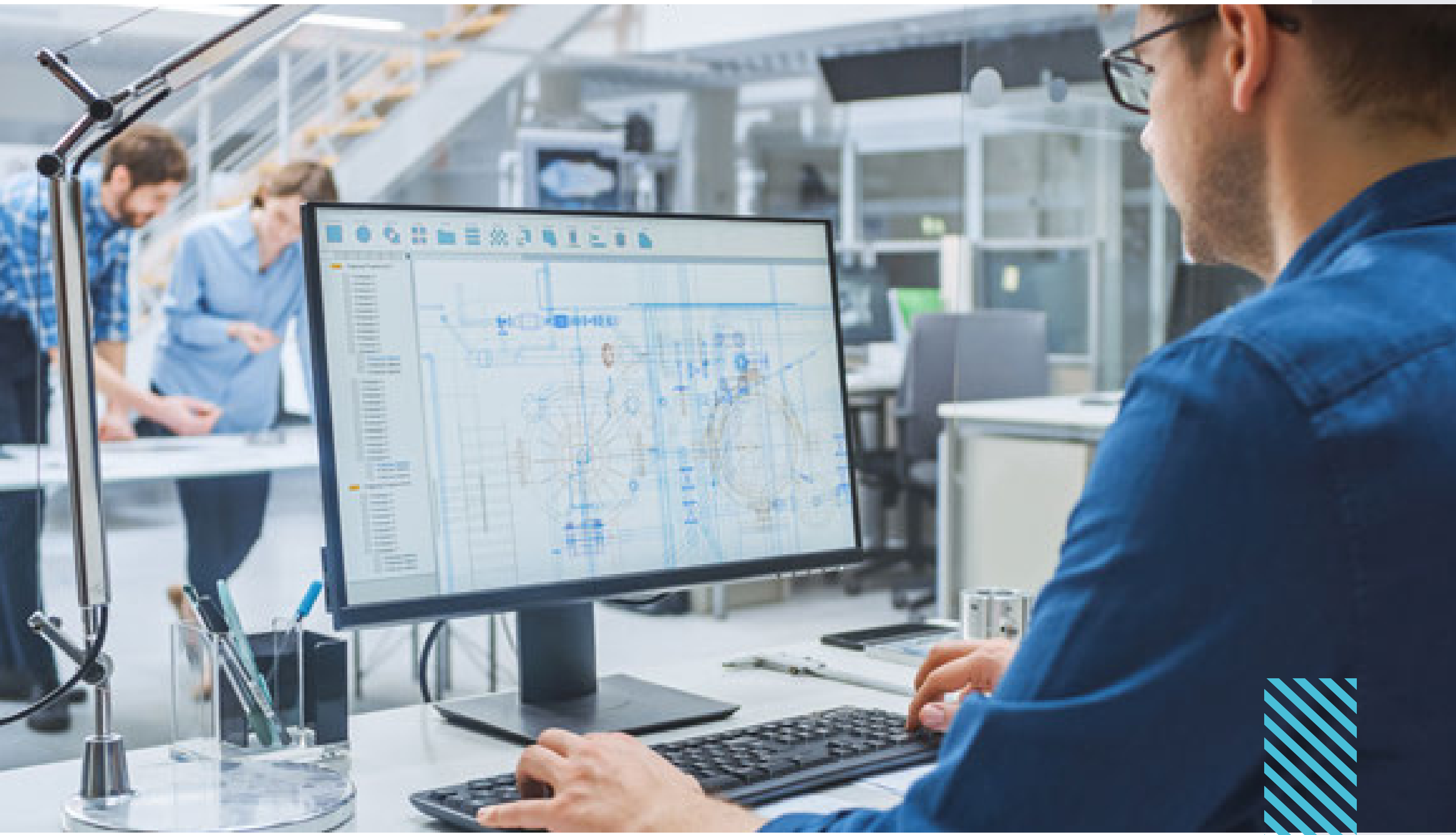
Continued stability in our management teams remains a key strength of the business. During the year, we updated our succession plan that identifies and develops future senior leaders from within the business. We believe that being able to promote from within is critical so that we can retain specialist skills and experience, especially given the capabilities and expertise that we provide to our clients. We continue to promote our graduate and apprenticeship schemes, which are particularly focused on welders and technical staff, including our metal fabricator apprenticeship programme, which we developed in conjunction with the Institute of Apprenticeships.

Our new intranet, SeverfieldConnect, which was launched in 2021, has allowed us to keep colleagues up to date on the strategy, performance and progress of the organisation, general company news and health and wellbeing issues. In response to COVID-19, SeverfieldConnect was also used to provide additional regular updates to colleagues and to provide practical advice and support during the pandemic, through a dedicated intranet page, Coronavirus Hub. We also regularly use social network sites and emails to deliver key messages to colleagues and to encourage the use of our new communications platforms for colleague engagement.

Order book, pipeline and market conditions

The future success of the Group is determined, amongst other things, by the quality of the secured workload and our discipline to maintain contract selectivity irrespective of economic conditions. Despite the challenges associated with COVID-19, we have secured a significant value of new work over the past 12 months. This has resulted in a UK and Europe order book at 1 June 2021 of £301m (1 November 2020: £287m), of which £241m is for delivery over the next 12 months. This leaves the Group well positioned with a strong future workload for the 2022 financial year and beyond.

Our balanced order book contains a healthy mix of projects across a diverse range of sectors including industrial and distribution, stadia and leisure, nuclear, transport infrastructure and commercial offices. Significant awards include several large distribution facilities in the UK, reflecting a sector that continues to remain buoyant, the Co-op Live Arena in Manchester, new nuclear orders secured by Harry Peers, and mid-sized office developments, both in London and outside, including one in Glasgow. We have also secured several HS2 bridge packages, following the HS2 Notice to Proceed issued by the UK Government in April. Largely unhindered by Brexit, our European business has also secured several smaller orders, along with proving its continued benefit to our UK operations when tendering for and executing projects in Europe. In terms of geographical spread, of the order book of £301m, 84 per cent represents projects in the UK, with the remaining 16 per cent representing projects for delivery in Europe and the Republic of Ireland (1 November 2020: 68 per cent in the UK; 32 per cent in Europe and the Republic of Ireland). The more UK-centric nature of the current order book is driven by the acquisition of DAM Structures' UK order book, together with a lower proportion of work in the Republic of Ireland, as several projects, including the large industrial facility, draw to completion. Furthermore, whilst the order book is



currently around £300m, only c. 25 per cent of this represents commercial offices, compared to the more normal previous range of 30 to 35 per cent and a peak of c. 60 per cent around four years ago, showcasing the benefits of our strategic diversification.

We remain very encouraged by the current level of tendering and pipeline activity across the Group. We continue to see a good number of opportunities, albeit some at tighter prices given the current market conditions, in our key market sectors, including in the industrial and distribution, transport infrastructure, stadia and leisure, nuclear and data centre sectors. Opportunities exist in these sectors both in the UK and in Europe, where we have demonstrated our ability to win more work, supported by our European business. Looking slightly further ahead, although we are now much less reliant on this sector, we are now starting to see more bidding activity in the commercial office market, including in London, a trend that we expect to increase over the next few years, given that some of the challenges recently experienced by this sector are now starting to abate. We remain well placed to win work in the diverse range of market sectors and geographies in which we operate and across a wide client base, especially with the return of more normal trading conditions, following the disruption of COVID-19 in the early part of the year. This diversity provides us with extra resilience and the ability to increase our market share in the future.

As a key component of economic growth, the construction industry will be central to a sustainable recovery from the effects of COVID-19. New, low-carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth. In November, the UK Government released details of its five-year plan, the National Infrastructure Strategy, ('NIS'), which sets out its plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net-zero emissions target by 2050. This plan will provide increased funding of £640 billion for UK infrastructure projects including future work for HS2 and investment programmes for Highways England. At Network Rail, in addition to

OUR OPERATING PERFORMANCE

HS2, the total CP6 budget of £53 billion (2019–2024), which includes a significant amount of rail electrification work, is substantially higher than the previous CP5 budget of £38 billion (2014-2019) and, at Highways England, the second Road Investment Strategy, ('RIS2'), has been increased by a further £2 billion. We continue to make good progress with several of these significant infrastructure opportunities, particularly with HS2, road bridges and rail electrification programmes and remain well positioned to win work in the transport sector given the Group's historical track record and our in-house bridge capability, together with the in-depth expertise of the recently acquired DAM Structures (see below).

The Brexit transition period between the EU and UK came to an end on 31 December 2020 and the Trade and Co-operation Agreement, which governs significant aspects of the trading relationship between the UK and EU, is now in force. Whilst, to date, these new trading arrangements have not had a significant impact on the Group's operations, we continue to monitor developments in this area, particularly in relation to the flow of goods and people across borders. Specific risks and mitigations continue to be monitored at a project level and controlled by individual business units.

Supply chain

We are mindful of industry-wide supply chain pressures which are, in some instances, impacting material costs and availability, over and above that seen in the second half of 2021. This includes certain steel products, in part reflecting the price of iron ore which has nearly doubled over the past nine months. Notwithstanding this, steel remains largely a pass-through cost for the Group, albeit the recent steel price increases are likely to impact working capital in the short term. In response to the current market conditions and the associated supply chain pressures, we remain in regular contact with our customers and our major supply chain partners and, for steel, we benefit from relationships with a number of partners in the UK and continental Europe, considerably reducing the risk of interruptions to the Group's steel supply. We have also experienced some challenges with the restricted supply of cold rolled steel over the past 12 months, which we continue to manage by forward purchasing as appropriate.

Severfield (Products & Processing)

Severfield (Products & Processing) ('SPP'), which is based at our Sherburn facility, allows us to address smaller-scale projects and provides a one-stop shop for smaller fabricators to source high-quality processed steel and ancillary products, albeit at lower margins. Encouragingly, despite trading through a pandemic, SPP has continued to secure and successfully deliver orders to its expanding customer base. The business has also provided high-quality subcontract fabrication packages (including general fabrication, secondary beams, trusses, bracing and stairs) to assist other Group companies in the delivery of larger projects, thus ensuring a greater proportion of project work remains in-house. During 2021, we have continued to grow and invest in the business, both in the factory and in our people, including strengthening the engineering and commercial functions, to maintain our focus on business development and developing the modular product range of the business. This includes the 'Severstor' and 'Rotoflo' product ranges, which we are continuing to develop organically, resulting in 2021 revenue of c.£2m and a growing number of orders for delivery to an expanding customer base. During the year, SPP has also been awarded 'Fit for Nuclear' and certain Network Rail accreditations, which, together with the encouraging progress to date and our previous record in modular construction, we believe will help us to achieve our future growth aspirations for the business.

Harry Peers

Harry Peers continues to secure high-quality orders and we have good visibility of a strong order pipeline including in the growing nuclear and power (waste-to-energy) sectors. As part of the 'SSS' programme, we are also focusing on certain operational initiatives including investment in technology-driven enhancements to make the business more competitive and efficient and to support the development of our client service offering.

As expected, in addition to the initial consideration of £18.9m that was paid in 2019, a further performance-based consideration of £6.0m was paid in December 2020, as the business achieved certain financial and operational targets for the period ended 31 August 2020.

DAM Structures

On 26 February 2021, the Group completed the acquisition of DAM Structures, an innovative steel fabrication company, giving the Group immediate access to attractive, complementary market sectors with strong growth potential including the propping, railway and steel piling markets. The initial consideration was £12.0m and a further deferred consideration of £7.0m is payable in cash in April 2022. An additional performance-based contingent consideration of up to £8.0m is also in place, payable if certain work-winning targets in the railway and steel piling sectors are achieved over a five-year period, ending in April 2026.

DAM Structures is integrating well into the Group's operations. In addition to its core steel fabrication markets, we are seeing significant opportunities for growth in the UK from Network Rail electrification programmes including piling, overhead line equipment and general rail works, and elements of the HS2 project that we were not previously addressing, such as temporary and permanent tunnel work. This will complement the Group's existing expertise in bridges and stations. We also see opportunities for growth in DAM's propping business, which provides bespoke fabricated propping systems to demolition and groundwork contractors.

DAM's core business involves on-site work with main contractors, and ground and demolition contractors, often prior to the stage of project construction at which the Group, in the past, would typically have become involved. The acquisition is allowing us to establish relationships and contracts at an earlier stage in site development with both existing and new customers and is another step in the implementation of the Group's strategy, enhancing our position as the UK's broadest structural steel services group.

Clients

Our proven ability to work collaboratively and innovatively with clients is fundamental to our success and is critical to securing new work. This involves early contract engagement with clients, anticipating the issues they face and providing problem-solving solutions to ensure greater clarity around scope, construction programmes and cost, which, in combination, reduces delivery risk for all parties.

Our unique capability to deliver complex design solutions, our capacity and speed of fabrication, the expert capabilities of the Group and its colleagues, and our management and integration of the construction process is important to our clients and a key differentiator for the Group. During the pandemic, when certain construction programmes were delayed and disrupted, these capabilities allowed us to help clients deliver changes to these programmes more quickly and efficiently.

We have again achieved national recognition for our projects including an award at the 2020 Structural Steel Design Awards (for the Brunel Building) and we have been shortlisted for awards (for the new Tottenham Hotspur F.C. stadium and the Brunel Building) at the prestigious 2020 Royal Institute of British Architects ('RIBA') Awards, which have been postponed until 2021 due to COVID-19.

The Group worked on over 100 projects with our clients during the year, including:

Major projects – over £20m	Google King's Cross, London Large industrial facility, Republic of Ireland Large data centres, Republic of Ireland and Finland Large distribution centres, Littlebrook and Swindon
Commercial offices – London and regional	King's Cross P2, London Bankside Yards, London 150 Holborn, London One Sherwood Street, London Argyle Street, Glasgow
Industrial and distribution	Distribution centres, East Midlands, Germany, Republic of Ireland Jaguar Land Rover, Logistics Operations Centre ('LOC') and car park
Transport infrastructure	M8 Footbridge, Glasgow Barking Riverside Bridge, London Luton Airport DART Parkway Station HS2 bridges, West Midlands
Data centres and other projects	Data centres, Republic of Ireland Sky Studios, Elstree
Stadia and leisure	Lord's Cricket Ground redevelopment (Compton and Edrich stands) Fulham FC, London

OUR OPERATING PERFORMANCE

India

The Indian joint venture ('JSSL') has continued its recovery from the disruptive effects of COVID-19. After a difficult first half, the company maintained a largely break-even profit position in H2 of 2021. The impact of COVID-19 is evident in the Group's after-tax share of loss of £0.7m (2020: share of profit of £2.2m). The loss reflects a reduction in JSSL's revenue to £48.0m, compared to £109.3m in the previous year, and an operating margin of 3.3 per cent, compared with 8.5 per cent in the previous year. Financing expenses of £3.4m (2020: £2.9m) turn JSSL's much reduced operating profit into a loss before tax for the year of £1.8m (2020: profit before tax of £6.4m).

The return to normal trading conditions in India is being considerably disrupted by the ongoing second wave of COVID-19, which is currently impacting output in H1 of 2022. Despite the ongoing COVID-19 challenges, JSSL's clients have continued to place orders, resulting in an order book that has increased to a record level of £140m (1 November 2020: £98m). This reflects the strong underlying demand for structural steel in India and includes several recent commercial awards (a large data centre in Chennai and commercial offices in Bangalore, Hyderabad and Navi Mumbai) and some large industrial projects for JSW. In terms of mix, 68 per cent of the order book represents higher margin commercial work, with the remaining 32 per cent representing industrial projects, mainly for JSW.

JSSL's pipeline of potential orders continues to include several commercial projects for key developers and clients with whom it has established strong relationships. JSSL is also developing formal strategic alliances with certain key clients, mainly for commercial, data centre and healthcare projects. This, together with the step up in the order book, leaves the business very well positioned in the market once the current COVID-19 wave subsides. Overall, we remain positive about the long-term development of the Indian market and of the value creation potential of JSSL, especially considering the significant structural changes made in India over recent years, the government's ongoing focus on the 'ease of doing business', and the significant production capability of the business following the Bellary expansion in 2020.

Safety, health and the environment

Throughout COVID-19, we have maintained our 'safety first' core value across the Group and this assumed an even greater emphasis in 2021 as we developed new operating procedures to support safe working to government guidelines. Significant changes were made in adapting our operations to maintain social distancing, facilitate home working by office staff where appropriate and to provide a safe working environment in both our factories and on our sites.

We have also continued our focus on mental health, which we recognise has been impacted nationally by COVID-19, including issuing regular communications through our new Coronavirus Hub on how to cope with certain issues arising from the pandemic itself, assisted by our team of 60 mental health first aiders. In 2021, we rolled out our enhanced Employees Assistance Programme, which includes the launch of a new app (My Healthy Advantage), to provide support and advice to colleagues on physical and mental wellbeing issues.

In 2021, a new platform for reporting SHE incidents and completing inspections was implemented, which has been designed to clearly identify trends to enable targeted improvements through enhanced reporting, root cause and data analysis. We have maintained our ISO 45001 and 14001 certifications, along with additional client and sector specific certifications. During the year, we continued to focus on the Group's injury frequency rate ('IFR') and high-potential near misses, HiPos. Despite the challenges of adapting operations to maintain social distancing, we have seen a positive and significant reduction in injury rates, resulting in an IFR (including JSSL) of 1.48, compared to 1.81 in 2020, improving upon our Group targets in the process. The Group's accident frequency rate ('AFR') (including JSSL) for the year, which is based solely on the level of RIDDORS (reportable accidents) was 0.18, which continues to outperform the industry average. This represents a slight increase from the prior year AFR of 0.15 but this was not wholly unexpected given the significant improvement in the AFR over recent years.

ESG

Following the launch of our new sustainability policy in 2020, we established an executive working group to focus on the evolution of our sustainability strategy and to develop a more sustainable business, taking into account certain Environmental, Social and Governance ('ESG') reporting frameworks, current and future legislation, and climate science. Aligning ourselves to the UN Sustainable Development Goals and building on the requirements of the Task Force on Climate-Related Financial Disclosures, ('TCFD'), the Group has developed targets and KPIs to monitor progress against our ESG objectives.

A key element of our sustainability strategy is our target to become an operationally carbon-neutral organisation in the 2021 calendar year. Carbon neutral in this context means that we will use carbon offsetting to eliminate the combined scope 1, scope 2 and operational scope 3 greenhouse gas ('GHG') emissions generated from our manufacturing facilities and construction sites. Projects set to benefit from our carbon offsetting include solar power projects in India, the manufacture of efficient cookstoves in Ghana, and the regeneration of degraded lands in Chile.

The Group has improved upon previous climate-related targets and, in 2021, we saw a reduction of eight per cent in our scope 1 and 2 GHG emissions to 27.5 CO_2e/£m revenue compared to 29.8 in 2020 and a reduction of 53 per cent compared to 58.9 in 2015. Using a market-based approach, which includes the positive impact of switching to green energy (see below), our 2021 scope 1 and 2 GHG emissions reduced further to 21.0 CO_2e/£m revenue, 21 per cent and 64 per cent lower than 2020 and 2015 respectively. This progress has been recognised by our inclusion in the Financial Times inaugural listing of Europe's climate leaders (May 2021), which highlights the 300 companies that have achieved the greatest reduction in their GHG emissions between 2014 and 2019. We have also established new targets to reduce scope 1 and 2 GHG emissions by 25 per cent by 2025 against a 2018 baseline. These targets based on the 2015 International Treaty on Climate Change, also known as the Paris Agreement, which seeks to limit global warming to below 1.5 degrees Celsius, compared to pre-industrial levels.

Following our earlier switch to green electricity at our two largest facilities, we have now committed to switch to 100 per cent green electricity across all the Group's directly controlled facilities and we have achieved the level of 73 per cent during the year. In 2021, we maintained our 'B' rating in the CDP index and were awarded an 'A' in the CDP Supplier Engagement Rating improving on our 'A minus' from the previous year.

SteelZero – building a sustainable future

The Group has strengthened its commitment to reducing carbon emissions by signing up to SteelZero, a global initiative to speed up the transition to a net-zero steel industry. SteelZero is led by the international non-profit organisations, the Climate Group and ResponsibleSteel. Targeting net-zero steel from the demand side of the supply chain makes this the first initiative of its kind, with the potential for it to have significant impact on investment, policy, manufacturing, and production in the construction sector. The initiative is being signed up to by an increasing number of steel buyers, both in the UK and internationally. By signing up, we are making a public commitment to transition to procuring, specifying, or stocking 100 per cent net-zero steel by 2050, with certain interim targets to be achieved by 2030.

Summary and outlook

The Group has coped well with the challenges presented by the COVID-19 pandemic and has delivered a resilient set of results for 2021, reflecting the benefit of the strategic and operational progress made over recent years. This resilience is reflected in a UK and Europe order book of £301m, a record Indian order book of £140m, increased Group revenues and a strong cash position, which has enabled us to continue to pay dividends, support our supply chain and continue with our investment plans, including the acquisition of DAM Structures. Our strategy remains unchanged, focused on growth, both organic and through selective acquisitions, operational improvements and creating further value in our Indian joint venture, JSSL.

Whilst we continue to be mindful of the COVID-19 backdrop, particularly in India, there is now considerable positive momentum across the Group, and we remain optimistic about the future. We continue to regularly win high-quality work resulting in a strong order book, which supports trading throughout the 2022 financial year and beyond. We have an encouraging pipeline of opportunities in the UK, Europe and India, expertise in managing complex projects and good long-standing client relationships. This, together with the construction industry's obvious role in the recovery of the UK economy, leaves us well placed to win work in the diverse range of market sectors and geographies in which we operate and across a wide client base, providing us with extra resilience and the ability to increase our market share and to drive future profitable growth.

Throughout the year, the business has had to adapt quickly and decisively to a continually changing market backdrop. I would like to thank all our colleagues for their commitment and dedication throughout these challenging times.

Alan Dunsmore
Chief executive officer

16 June 2021

OUR FINANCIAL PERFORMANCE

OUR STRONG BALANCE SHEET AND DIVERSE UK AND EUROPE ORDER BOOK UNDERPIN OUR AMBITIONS TO DELIVER SUSTAINABLE GROWTH

"The Group's strong cash position has been carefully managed during the pandemic, ensuring we can continue to support our supply chain partners whilst not claiming any support under COVID-related government schemes."

ADAM SEMPLE
GROUP FINANCE DIRECTOR

	2021	2020
Revenue	**£363.3m**	£327.4m
Underlying* operating profit (before JVs and associates)	**£25.5m**	£27.0m
Underlying* operating margin (before JVs and associates)	**7.0%**	8.2%
Underlying* profit before tax	**£24.3m**	£28.6m
Underlying* basic earnings per share	**6.4p**	7.7p
Operating profit (before JVs and associates)	**£22.7m**	£24.7m
Profit before tax	**£21.1m**	£25.8m
Basic earnings per share	**5.6p**	6.7p
Return on capital employed ('ROCE')	**13.6%**	17.2%

* The basis for stating results on an underlying basis is set out on the highlights page. The board believes that non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying performance of the Group. Accordingly, certain Alternative Performance Measures ('APMs') have been used throughout this report to supplement, rather than replace, the measures provided under IFRS.

Trading performance

Revenue for the year of £363.3m represents an increase of £35.9m (11 per cent) compared with the previous year, reflecting an increase in order flow (£20.0m), together with the full year effect of the Harry Peers acquisition (£12.0m), which was acquired in October 2019, and one month's trading from the recently acquired DAM Structures (£3.9m).

Underlying operating profit (before JVs and associates) of £25.5m (2020: £27.0m), which includes a one-off profit (the associated revenue is included in Group revenue) on a bespoke paint package on the large industrial facility in the Republic of Ireland that the Group is currently working on, was £1.5m lower than in the previous year, reflecting the disruptive effects of COVID-19. This has also resulted in the 2021 operating margin of 7.0 per cent falling below that achieved in the previous year; however, the margin in H2 recovered well and, looking forward, we expect the 2022 operating margin to be approaching our normal range of 8 to 10 per cent, which was established pre-pandemic. The statutory operating profit (before JVs and associates), which includes the Group's non-underlying items, was £22.7m (2020: £24.7m).

The share of results of JVs and associates was a loss of £0.3m (2020: profit £2.4m), mainly reflecting a difficult year for our Indian joint venture ('JSSL'). Net finance costs were £0.8m (2020: £0.7m).

Underlying profit before tax, which is management's primary measure of Group profitability, was £24.3m (2020: £28.6m). The statutory profit before tax, reflecting both underlying and non-underlying items, was £21.1m (2020: £25.8m).

Acquisition of DAM Structures

On 26 February 2021, the Group completed the acquisition of 100 per cent of the share capital of DAM Structures Limited for an initial net cash consideration of £12.0m on a cash-free, debt-free basis assuming a normalised level of working capital on completion. The total initial consideration was £17.0m, including cash and cash equivalents of £5.0m, which was funded by a combination of Group cash reserves of £5.0m and a new term loan of £12.0m. A further deferred consideration of £7.0m is payable in 2022, together with a performance-based contingent consideration of up to £8.0m, which would be payable over a five-year period. Based on provisional fair values, the acquired assets included intangible assets of £4.8m, which were attributed to customer relationships and order books and residual goodwill of £15.1m.

The business contributed revenue of £3.9m and a nominal operating profit in the year.

Share of results of JVs and associates

The share of results from JSSL was a loss of £0.7m (2020: profit of £2.2m), reflecting the impact of COVID-19 on JSSL's trading and profitability. Our specialist cold rolled steel business, Construction Metal Forming ('CMF'), contributed a share of profit of £0.4m (2020: £0.2m). The business is currently in the process of expanding its production operations in Wales and has continued to develop its product range, including modular steel products, to drive organic revenue growth. We continue to be the only hot rolled steel fabricator in the UK to have a cold rolled manufacturing capability.

Non-underlying items

Non-underlying items are classified as such as they do not form part of the profit monitored in the ongoing management of the Group. Non-underlying items for the year of £3.2m (2020: £2.8m) consisted of the amortisation of acquired intangible assets of £2.8m (2020: £1.4m) and other acquisition-related expenses of £0.4m (2020: £1.4m).

The amortisation of acquired intangible assets represents the amortisation of customer relationships, order books and brand name, which were identified on the acquisition of Harry Peers. These assets are being amortised over a period of 18 months to five years. No amortisation has been recorded for the intangible assets, which were provisionally identified on the acquisition of DAM Structures on grounds of materiality and as these fair values are currently provisional. Acquisition-related expenses include certain non-recurring legal and consultancy costs associated with the DAM Structures acquisition and movements in the valuation of the contingent consideration for the Harry Peers acquisition, which was paid in December 2020.

Taxation

The Group's underlying taxable profits of £24.7m (2020: £26.3m) resulted in an underlying tax charge of £4.6m (2020: £5.0m), which represents an effective tax rate of 18.5 per cent (2020: 19.0 per cent). The total tax charge of £3.8m (2020: £5.4m) also includes adjustments relating to prior years, which are categorised as non-underlying and included in non-underlying items.

Earnings per share

Underlying basic earnings per share decreased by 17 per cent to 6.4p (2020: 7.7p) based on the underlying profit after tax of £19.8m (2020: £23.7m) and the weighted average number of shares in issue of 307.3m (2020: 305.4m). Basic earnings per share, which is based on the statutory profit after tax, was 5.6p (2020: 6.7p), reflecting the decreased underlying profit after tax offset by a decrease in non-underlying items. Diluted earnings per share, which includes the effect of the Group's performance share plan, was 5.6p (2020: 6.6p).

Dividend and capital structure

The Group has a progressive dividend policy. Funding flexibility is maintained to ensure there are sufficient cash resources to fund the Group's requirements. In this context, the board has established the following clear priorities for the use of cash:

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

The board considers the dividend to be a very important component of shareholder returns. Accordingly, based on the outlook for the year ahead and our strong financial position, and despite the significant impact of COVID-19 on the 2021 results, the board is recommending a final dividend of 1.8p per share (2020: 1.8p), payable on 3 September to shareholders on the register at the close of business on 13 August. This, together with the interim dividend of 1.1p per share (2020: 1.1p), will result in a total dividend of 2.9p per share (2020: 2.9p), unchanged from the previous year.

Goodwill and intangible assets

Goodwill was £85.8m at 31 March 2021 (2020: £70.7m), the increase reflecting the provisional goodwill arising on the DAM Structures acquisition. In accordance with IFRS, an annual impairment review has been performed. No impairment was required either during the year ended 31 March 2021 or the year ended 31 March 2020. Other intangible assets are recorded at £9.6m (2020: £7.4m). This largely represents the net book value of the intangible assets (customer relationships, order books and brand name) identified on the acquisitions of Harry Peers and DAM Structures, with the value of the DAM Structures intangibles remaining provisional at 31 March 2021.

OUR FINANCIAL PERFORMANCE

Property, plant and equipment

The Group has property, plant and equipment of £91.7m (2020: £88.9m). Capital expenditure of £6.6m (2020: £6.5m) represents the continuation of the Group's capital investment programme. This predominantly consisted of ongoing expansion to our Dalton production facility, including new equipment for our fabrication lines, and improvements to our site and office facilities. Depreciation in the period was £6.0m (2020: £5.5m), of which £1.6m (2020: £1.6m) relates to right-of-use assets under IFRS 16.

Joint ventures

The carrying value of our investment in joint ventures and associates was £28.8m (2020: £26.7m), which consists of the investment in India of £17.6m (2020: £18.3m) and in CMF of £11.2m (2020: £8.5m).

Pensions

The Group's defined benefit pension liability at 31 March 2021 was £22.4m, an increase of £3.7m from the 2020 position of £18.7m. The deficit has increased largely because of a reduction in the discount rate, which reflects the significant fall in bond yields over the past year, together with higher long-term inflation assumptions. This has been partially offset by higher returns on the scheme's assets and by ongoing deficit contributions. The triennial funding valuation of the scheme is in progress, with a valuation date of 31 March 2020. All other pension arrangements in the Group are of a defined contribution nature.

Return on capital employed

The Group adopts ROCE as a KPI to help ensure that its strategy and associated investment decisions recognise the underlying cost of capital of the business. The Group's ROCE is defined as underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity excluding retirement benefit obligations (net of tax), acquired intangible assets and net funds. For 2021, ROCE was 13.6 per cent (2020: 17.2 per cent), which exceeds the Group's target of 10 per cent through the economic cycle.

Cash flow

	2021	2020
Operating cash flow (before working capital movements)	**£30.2m**	£30.2m
Cash generated from operations	**£30.0m**	£28.0m
Operating cash conversion	**93%**	81%
Cash balances	**£25.0m**	£29.5m
Net funds**	**£4.4m**	£16.4m

** The Group excludes IFRS 16 lease liabilities from its measure of net funds/debt as they are excluded from the definition of net debt as set out in the Group's borrowing facilities.

The Group's business model has been established to generate surplus cash flows and we have always placed a high priority on cash generation and the active management of working capital. The Group ended the financial year with net funds of £4.4m (2020: £16.4m). Net funds at 31 March 2021 consisted of cash of £25.0m offset by the outstanding term loans of £20.7m for the Harry Peers and DAM Structures acquisitions.

Operating cash flow for the year before working capital movements was £30.2m (2020: £30.2m). Net working capital was broadly stable over the course of the year, increasing by £0.2m. Excluding advance payments, year-end net working capital represented approximately two per cent of revenue (2020: three per cent). This is slightly below our well-established target range of four to six per cent, reflecting our continued focus on working capital management.

Our cash generation KPI shows the conversion of 93 per cent (2020: 81 per cent) of underlying operating profit (before JVs and associates) into operating cash (cash generated from operations less net capital expenditure), ahead of our target of 85 per cent.

Prompt Payment Code

We believe in treating our suppliers and subcontractors fairly and with respect. Our three main businesses are all signatories of the Prompt Payment Code ('PPC'). Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices remained a major area of focus throughout the year and even more so against the backdrop of COVID-19. For the PPC reporting period of 1 October 2020 to 31 March 2021, all the Group's businesses that are signatories of the PPC, reported that at least 95 per cent of invoices were paid within 60 days.

Whilst we remain very focused on continuing to improve our payment performance, the Group operates in a sector where supply chains and contractual terms are complex, and prompt payment can often be significantly impacted by resolution of disputes and alignment to agreed contractual processes. On 1 March 2021, the UK's new VAT Domestic Reverse Charge regulations for construction services came into force, further increasing existing cash flow pressures on many businesses in our sector, and which also may impact the ability of certain supply chain partners to accurately invoice the Group.

Bank facilities committed until 2023

The Group has a £25m revolving credit facility ('RCF') with HSBC Bank and Yorkshire Bank, which matures in October 2023. The RCF, of which £10m is available as an overdraft facility, continues to include an additional accordion facility of £20m, which allows the Group to increase the aggregate available borrowings to £45m. As part of the Harry Peers and DAM Structures acquisitions, new amortising term loans of £14m and £12m, respectively, were established as amendments to the existing RCF. These loans, for which £20.7m remained outstanding at 31 March 2021, also mature in October 2023. The RCF remains subject to three financial covenants, interest cover (>4x) and net debt to EBITDA (<2.5x) and cash flow cover (<1x). The Group operated well within these covenant limits throughout the year ended 31 March 2021.

Going concern

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

The following factors were considered as relevant:

- The current market conditions and the impact of these (including the potential future impact of COVID-19 and similar other significant downside risks linked to our principal risks) on the Group's profit and cash flows;
- The UK and Europe order book and the pipeline of potential future orders;
- The Group's 'SSS' business improvement programme, which has delivered tangible benefits in 2021 and is expected to continue doing so in the 2022 financial year and beyond; and
- The Group's net funds position and its bank finance facilities, which are committed until October 2023, including both the level of those facilities and the three financial covenants attached to them.

The Group has continued to trade safely and profitably with positive operating cash flows for the year ended 31 March 2021 whilst operating under various COVID-19 restrictions. Whilst there continues to be some uncertainty associated with COVID-19, the directors expect the Group to remain similarly resilient over the forecast period whilst it continues to operate under any further restrictions until the end of the pandemic.

The directors have reviewed the Group's forecasts and projections for the 2022 financial year and up to at least 12 months from the date of approval of the financial statements, including sensitivity analysis to assess the Group's resilience to potential adverse outcomes arising out of COVID-19 (or similar significant disruptions) including a highly pessimistic 'worst case' scenario. This 'worst case' is based on the combined impact of securing no further orders for the next 12 months and further significant COVID-19 (or similar other) disruption for the entirety of the going concern period. Given the strong previous performance of the Group, despite three separate COVID-19 lockdowns, this scenario is only being modelled to stress test our strong financial position and demonstrate the existence of considerable headroom in the Group's covenants and borrowing facilities.

The directors also considered sensitivities in respect of other potential downside scenarios in concluding that the Group can continue in operation for a period of at least 12 months from the date of approving the financial statements. Having also made appropriate enquiries, the directors are confident that the Group will have sufficient funds to continue to meets its liabilities as they fall due for at least 12 months from the approval of the financial statements, and for this reason, have continued to adopt the going concern basis in preparing the financial statements.

Adam Semple
Group finance director

16 June 2021


CAMFAUD

Viability statement

In accordance with the UK Corporate Governance Code (the 'Code'), the directors have assessed the prospects and the financial viability of the Group.

This viability assessment has been made using a three-year period ending on 31 March 2024 which is in line with that used for the Group's annual strategic planning process. This gives good visibility of future work as the majority of the Group's workload falls within three years and enables more accurate forecasting as the Group's most significant construction contracts follow an execution period of which is normally less than three years. In the previous year, the directors considered whether the assessment period of three years should be revisited in light of COVID-19. However, our strong financial position, and the lesser extent to which our operations have been adversely impacted compared to other businesses and sectors, it was concluded that the three-year timeframe remained appropriate. In making their assessment, the directors took account of the Group's strategy, strong financial position, forward order book of £301m, encouraging pipeline of opportunities, recent and planned investments and main committed bank facilities (which mature in October 2023).

For our assessment of going concern, which covers a twelve-month period, we have modelled a 'base case' scenario, which captures the Group's most up-to-date 'realistic' forecast position, and a highly pessimistic 'worst case' scenario, being the combined impact of securing no further orders for the next twelve months and further significant COVID-19 (or similar other) disruption for the entirety of the going concern period. Given the strong performance of the Group in FY21 despite three separate COVID-19 lockdowns, this implausible scenario is only being modelled to 'stress test' our strong financial position and demonstrate the considerable headroom that the Group has in its covenants and borrowing facilities.

The directors have also assessed the potential financial and operational impact of other downside scenarios resulting from the crystallisation of one or more of the principal risks described in the annual report that are relevant to the industry sector in which the Group operates. The assessed risks, for which the impacts were applied, include supply chain risks (and the reliance on key suppliers), changes in the commercial and market environment, the impact of COVID-19 on trading, the failure to mitigate onerous contract terms, business disruption caused by a cyber-attack, and the impact of a serious health and safety incident. The impact of these were modelled through a reduction in margin of 25 per cent, a reduction in revenue of 25 per cent, a deterioration in working capital (the extension of customer payment terms by one month), a period of business interruption (two months with no factory production or site activity) and a significant one-off event resulting in a cost to the Group of £20m. The range of scenarios tested was considered in detail by the directors, taking account of the probability of occurrence and the effectiveness of likely mitigation actions including the reduction of any non-essential capital expenditure and operating expenditure, bonuses and dividend payments.

There are no individual risks which are considered to materially impact the Group's viability, and our assessment included modelling the financial impact of a 'worst case' scenario (incorporating the 'worst case' scenario performed for going concern purposes), where the impact of certain risks and uncertainties highlighted above were applied in combination. Based on this assessment, and considering that the Group remained profitable and sustainable throughout periods of significant COVID-19 related uncertainty in 2020, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

BUILDING A SUSTAINABLE BUSINESS

As the world's population grows, more pressure than ever before is put on our cities, environment, and infrastructure. Our purpose is to develop better ways to build, for a world of changing demands. To achieve this, we are committed to motivating and enabling our people and our supply chain to deliver high quality, innovative buildings in a sustainable and efficient way.

Our sustainability journey

As a market leader in structural steel, we recognise that operating in a sustainable manner is crucial to both the current and future success of the Group. The Group is committed to behaving responsibly and conducting business with openness, honesty, and integrity.

This year, the COVID-19 global pandemic has put many things in perspective and has emphasised the impact that the construction industry has on the UK economy. Contributing up to 7 per cent of the UK GDP and being one of the few sectors supporting large numbers of highly-skilled, well-paid jobs, across a vast supply chain, the importance of the construction industry was recognised by the government's decision to class construction employees as 'key workers' during the pandemic. Whilst the pandemic is far from over, climate change is a recognised global crisis and one of the biggest challenges facing the construction industry. The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds. We recognise that sustainability is not only about meeting legislative requirements, but also about being a responsible employer, attracting the right talent, minimising the environmental impact of our operations on our local communities and about safely maintaining the profitable growth of our business to deliver long-term, sustainable benefits to all our stakeholders.

As a key component of economic growth, the construction industry will be central to a sustainable recovery from the effects of COVID-19. New, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating growth, including the UK government's National Infrastructure Strategy (NIS), which sets out plans to transform infrastructure to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050.

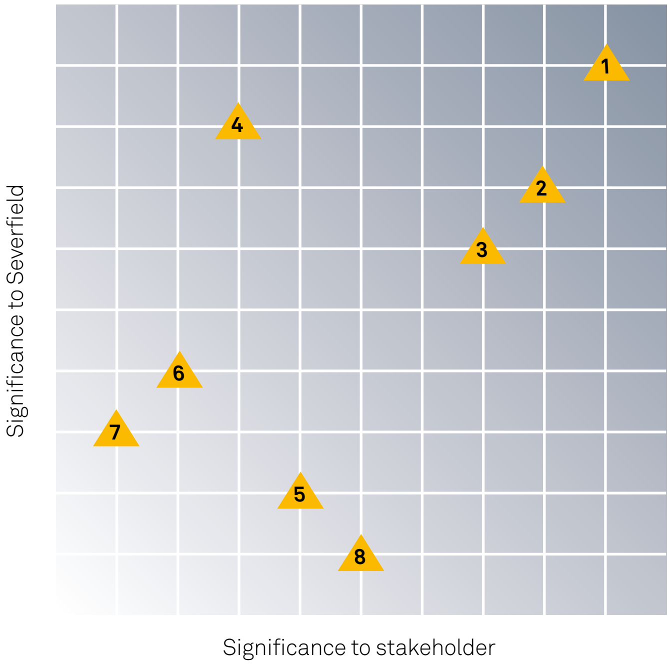
Smarter, Safer, more Sustainable

Our sustainable business strategy is driven by our values and our strategic objectives to ensure that we operate responsibly and ethically. We focus on all areas of sustainability – Environmental, Social and Prosperity – and we report on four key sustainability focus areas ('our 4 Ps'); Our Planet, Our People, Our Prosperity and Our Principles of Governance, which are supported by our ongoing 'Smarter, Safer, more Sustainable' business improvement programme. This enables us to operate as a responsible, sustainable business for the benefit of all our stakeholders. We believe that investing in improvement projects and in training and technology to empower our people to work in a 'Smarter, Safer, more Sustainable' way will be fundamental to achieving our long-term strategic objectives.

In the 2021 financial year, the Group launched its new sustainability strategy. Aligning ourselves to the UN Sustainable Development Goals ('UN SDGs') and building on the requirements of the Task Force on Climate-related Financial Disclosure ('TCFD'), the Group has developed targets and KPIs to monitor progress against our sustainability objectives. These targets and KPIs have been identified as the most material to the business by stakeholder groups including our clients, suppliers, colleagues and shareholders.

In line with the Global Reporting Initiative ('GRI') Standards, our sustainability reporting is structured around our most material sustainability issues. This assessment process draws on our existing risk assessment process and stakeholder engagement activity as well as specific research and analysis. In 2021, this included engagement with both internal and external stakeholders. The assessment identified the following eight areas of importance:

Materiality matrix



1. Health and safety
2. Climate change and carbon emissions
3. Supply change management
4. Sustainable construction
5. Diversity and inclusion
6. Training and development
7. Employee engagement
8. Waste management

The Group supports the Task Force on Climate-related Financial Disclosures ('TCFD'), which comes into force in the 2022 financial year, and is committed to ensuring the Group's climate-related reporting in the 2022 annual report is fully compliant with its requirements. We will continue to evolve our approach to sustainability and our climate-related disclosure and reporting, including the setting of sustainability targets, in the 2022 financial year.

BUILDING A SUSTAINABLE BUSINESS

Sustainability performance highlights in 2021

Our key achievements in the year across our four key focus areas are:

Our planet see page 64	Our people see page 68	Our prosperity see page 71	Our principles of governance see page 73
Sustainability strategy Launched our new sustainability strategy with the target to be carbon neutral in the 2021 calendar year	**Dedicated workforce engagement director** Appointed non-executive director, Louise Hardy, as our workforce engagement director	**Economic value generated and distributed** £363.3m / £343.2m (2020: £327.4m / £306.1m) 11% / 12% increase from 2020	**Business ethics and human rights** 0 Total number of reported cases of non-compliance with the Group's suite of ethics policies and cases of violation of our human rights policy
Supporting SteelZero Became one of the first signatories to SteelZero, a global initiative to accelerate the transition to a net zero steel industry	**Colleagues' safety, health and wellbeing** Maintained the safety, health and wellbeing of our people and their families during the COVID-19 pandemic	**Corporation taxes paid in cash** £4.6m 2020: £6.0m 23% decrease from 2020 as profits have reduced	**Executive responsibility of sustainability matters** Established an executive working group to focus on the evolution of our sustainability strategy
Improved our GHG emissions 27.5 CO_2e/£m (2020: 29.8 CO_2e/£m) (2015: 58.9 CO_2e/£m) Reduction in our scope 1 and 2 GHG emissions by 8% from 2020 and 53% from 2015 (our first full year of reporting) using a location-based approach	**Incident frequency rate ('IFR')** 1.48 (2020: 1.81) 18% improvement in our IFR Accident frequency rate ('AFR') 0.18 (2020: 0.15) AFR remains above industry average	**Net investment** 25% (2020: 29%) Capital expenditure minus depreciation divided by dividend payments We continue to invest well above depreciation whilst recognising the importance of dividends to our shareholders.	**Coverage of certified environmental management systems** Group-wide alignment to: ISO14001 (environmental) – 100% (2020: 100%) ISO45001 (occupational health and safety) – 100% (2020: 100%)
CDP global evaluation rating B (2020: B) **CDP supplier engagement rating** A (2020: A minus) CDP index ratings maintained and improved	**Succession planning** Updated our succession plan which identifies and develops future senior leaders from within the business	**Prompt payment reporting** 95% Percentage of invoices paid within agreed payment terms in latest PPC reporting period for our signatory companies	**SHE reporting system** Launched a new platform for reporting SHE incidents and inspections
Green electricity 73% green electricity used in our wholly owned factories (with a target to increase this to 100%)	**Board diversity** 22% (2020: 12%) Percentage of women on the board	**Supply chain management** 97% Percentage of suppliers subject to annual supply chain contractor due diligence reviews	**Board tenure** 6.1 years (2020: 6.3 years) Average tenure of our board of directors

Alignment to the United Nations Sustainable Development Goals

The Group has aligned our sustainability strategy to the United Nations Sustainable Development Goals ('UN SDGs') since these provide businesses and stakeholders with a comprehensive, internationally-recognised framework against which to align their operations, strategic objectives and reporting. Of the 17 UN SDGs, we consider the following seven goals to be those where we can have the greatest impact and set out how these are linked to our sustainability objectives and the key performance indicators used to measure them.

7 AFFORDABLE AND CLEAN ENERGY · 8 DECENT WORK AND ECONOMIC GROWTH · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 13 CLIMATE ACTION → **Directly relevant**

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 11 SUSTAINABLE CITIES AND COMMUNITIES · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS → **Indirect contribution**

UN SDG	Link to our sustainability objectives	KPIs
7 AFFORDABLE AND CLEAN ENERGY	**Planet** Limit the environmental impact of our operations on the planet so it can support the needs of the present and future generations	• Energy usage and intensity
8 DECENT WORK AND ECONOMIC GROWTH	**People** Target zero harm through health and safety excellence, attract and retain talent and promote a diverse, inclusive environment for our people to thrive	• Gender pay equality • Diversity and inclusion % • Job creation • Incident frequency rate • Accident frequency rate • Training provided
	Prosperity Achieving our strategic objectives is essential for the long-term profitable growth of the Group and its ability to deliver future benefits to all stakeholders	• Economic value generated and distributed • Net investment ((capex – depreciation) / dividends) • Supply chain due diligence • Prompt payment reporting
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	**Prosperity** Achieving our strategic objectives is essential for the long-term profitable growth of the Group and its ability to deliver future benefits to all stakeholders	• Economic value generated and distributed • Supply chain due diligence • Prompt payment reporting
11 SUSTAINABLE CITIES AND COMMUNITIES	**Planet** Limit the environmental impact of our operations on the planet so it can support the needs of the present and future generations	• Waste management %
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Planet** Limit the environmental impact of our operations on the planet so it can support the needs of the present and future generations	• GHG intensity • CDP ratings • Waste management % • Coverage of certified environmental management systems
13 CLIMATE ACTION	**Planet** Limit the environmental impact of our operations on the planet so it can support the needs of the present and future generations	• GHG intensity • CDP ratings • Waste management % • Coverage of certified environmental management systems
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	**Principles of governance** Uphold the highest standards of ethics and act with integrity in accordance with our values	• Board diversity • Board tenure • Ethics training rate • Number of incidents of non-compliance with the Group's suite of ethics policies

The following sections provide a summary of the material sustainability issues across the four focus areas, outlined above. We explain why these issues are material to the Group, how they are managed and reported against and our performance against them during the year.

BUILDING A SUSTAINABLE BUSINESS

OUR PLANET

Why is it important?

Steel is the world's most widely used material and global steelmakers are making progress in developing technologies to decarbonise the industry. All construction materials have some environmental impact and when assessing sustainability, it is important to measure all of steel's impacts, including the atmosphere, the environment, means of disposal, and durability. Steel manufacturing continues to improve its energy use and levels of greenhouse gas emissions and steel products exhibit a decisive life cycle advantage versus many other construction materials (including concrete) since they can continually be recycled. Our structures can last for many years, making them cost-effective as well as sustainable and since steel is often fabricated off-site, it can reduce on-site labour, cycle time and construction waste. From a sustainability perspective, we believe that steel offers a durable, cost-effective and sustainable choice for construction, and our 'Smarter, Safer, more Sustainable' ('SSS') initiatives continue to focus on our environmental impact through our Lean manufacturing techniques and cost and waste reduction programmes.

Notwithstanding this, carbon reduction in an important strategic objective for the Group and our sustainability policy sets out the Group's commitment to protect and enhance the environment, and to limit the environmental impact of our operations on the planet, so it can support the needs of the present and future generations.

Management approach

The Group is fully committed to minimising its impact on climate change and mitigating the business risks that climate change presents and have developed plans to manage them, underpinned by the Group's ISO 14001 certified environmental management system. We are also certified to BES 6001 Responsible Sourcing. A key element of our sustainability strategy is our target to become an operationally carbon neutral organisation in the 2021 calendar year. Carbon neutral in this context means that we will use carbon offsetting to eliminate the combined scope 1, scope 2 and operational scope 3 greenhouse gas ('GHG') emissions generated from our manufacturing facilities and construction sites. Projects set to benefit from our carbon offsetting include solar power projects in India (chosen because of our existing manufacturing footprint in India),

the manufacture of efficient cookstoves in Ghana (chosen because of the air quality issues in Ghana), and the regeneration of degraded lands in Chile (chosen because of the level of innovation associated with this project). In the future, as we reduce our own emissions, we will rely less on offsetting.

We have also created new targets to reduce scope 1 and 2 GHG emissions by 25 per cent by 2025 against a 2018 baseline. These targets are based on the 2015 International Treaty on Climate Change, also known as the Paris Agreement, which seeks to limit global warming to below 1.5 degrees Celsius, compared to pre-industrial levels. To achieve this, we will strive to:

- reduce energy usage in all areas of our construction sites, offices and factories by employing Lean ways of working,
- procure renewable electricity for all our facilities and researching and implement low / no carbon diesel alternatives,
- investigate the feasibility of bringing renewable energy generation to our facilities,
- minimise the use of energy, materials and supplies, and use renewable or recyclable materials where practicable,
- continue to consider energy efficiency and environmental criteria in design, procurement, investment and contracting decisions,
- monitor and seek to reduce the levels of waste produced during our fabrication and site processes, and
- encourage our suppliers to develop their own sustainable business policies.

2021 achievements

The Group has improved upon previous climate-related targets and in 2021, using a location-based approach, we saw a reduction of eight per cent in our scope 1 and 2 GHG emissions to 27.5 CO_2e/£m revenue compared to 29.8 in 2020 and a reduction of 53 per cent compared to 58.9 in 2015, when we established our baseline. Using a market-based approach, which includes the positive impact of switching to green energy, our scope 1 and 2 GHG emissions reduced further to 21.0 CO_2e/£m revenue, 21 per cent and 64 per cent lower than 2020 and 2015, respectively.

BUILDING A SUSTAINABLE BUSINESS

OUR PLANET

As required by Streamlined Energy and Carbon Reporting ('SECR'), we report on our CO_2 emissions in accordance with the internationally recognised Greenhouse Gas ('GHG') Protocol and our metrics include Scope 1 and Scope 2 emissions. For the year ended 31 March 2021, the Group's global GHG emissions, using a location-based approach, and energy usage, were as follows:

	Tonnes of CO_2e	
GHG emissions from:	**2021**	2020
Scope 1 – combustion of fuel and operation of facilities	**6,297**	5,635
Scope 2 – electricity, heat, steam and cooling purchased for own use	**3,598**	3,696
Total CO_2e emissions (location-based)	**9,895**	9,331

Intensity measurement (location-based):	**2021**	2020
Absolute tonnes equivalent CO_2e per £m of revenue	**27.5**	29.8

For the year ended 31 March 2021, the Group's global GHG emissions, using a market-based approach, and energy usage were as follows:

	Tonnes of CO_2e	
GHG emissions from:	**2021**	2020
Scope 1 – combustion of fuel and operation of facilities	**6,297**	5,635
Scope 2 – electricity, heat, steam and cooling purchased for own use	**1,248**	2,706
Total CO_2e emissions (market-based)	**7,545**	8,341

Intensity measurement (market-based):	**2021**	2020
Absolute tonnes equivalent CO_2e per £m of revenue	**21.0**	26.6

Our Scope 1 and Scope 2 GHG data is being independently verified by the Carbon Trust, in accordance with the international standard ISO 14064-3.

Using a market-based approach, Group Scope 1 and Scope 2 emissions have reduced by 21 per cent in the year, as a direct result of increasing our green electricity portfolio. Whilst Scope 2 emissions have decreased by 54 per cent, Scope 1 emissions have seen an increase of 12 per cent. This increase reflects the increase in Group revenue in FY21, including the full-year effect of the acquisition of Harry Peers.

During the year, we have further developed our management and reporting of our operational Scope 3 emissions, as reported below. As the Group's sustainability strategy and management process develops, we will capture more information on our indirect Scope 3 emissions and strive to reduce these.

GHG emissions from:	**Tonnes of CO_2e 2021**
Waste	**332**
Business travel	**246**
Colleague commuting	**404**
Transport and distribution	**10,155**
Total CO_2e emissions	**11,137**

Our Scope 3 GHG data is being independently verified by the Carbon Trust, in accordance with the international standard ISO 14064-3.

Energy usage from:	2021	2020
Scope 1	**25,452**	22,372
Scope 2	**15,431**	14,460
Total MWH	**40,883**	36,832

The Group has made good progress during the year in managing its energy, fuel consumption and emissions. This progress has been recognised by our inclusion in the Financial Times inaugural listing of Europe's climate leaders (May 2021), which highlights the 300 companies that have achieved the greater reduction in their GHG emissions between 2014 and 2019. Following our switch to green electricity at our two largest facilities during 2020, we have now committed to switch to 100 per cent green electricity across all the Group's wholly owned facilities and, during the year, we have achieved the level of 73 per cent. In 2021, we maintained our 'B' rating in the CDP index. This annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emission reductions as well as transparency and verification of our reported data and assesses the completeness of the Group's measurement and management of our carbon footprint, our risk management process and our sustainability strategy.

We are also focusing on our Scope 3 emissions within our direct and indirect operations. Our fabrication processes produce relatively little waste, with the main source of waste being scrap steel offcuts, which is an unavoidable by-product even when taking into consideration the work we do with our supply chain to roll as closely to specification as possible. The Group disposes of this waste through an independent recycling company. In 2021, we sent 9,134 tonnes of scrap steel for recycling.

Whilst waste in our operations in minimal we are still focused on further understanding our associated waste streams, with the aim of setting a reduction and diversion from landfill target within 2022. Our current target area is commercial waste as our second largest contributor in this category. Work is already underway with our waste provider to improve segregation and to look at alternative means of disposal for items that can be reused or recycled. Within the year, we have also put in place a timber returns scheme to ensure that our 100 per cent FSC certified timber bearers, used in loading and transportation of steel, are in a closed loop system and therefore used to their potential ahead of being recycled or donated to community projects.

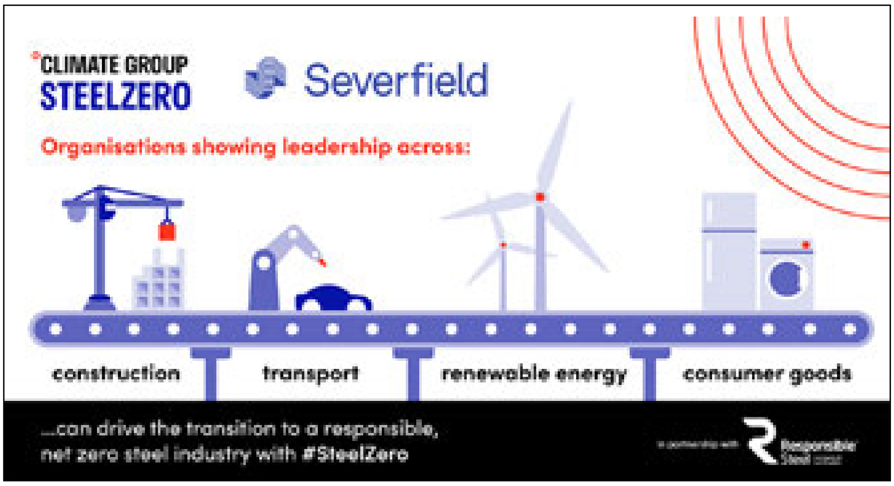
We continue to be accredited with the Gold Membership Standard of the Steel Construction Sustainability Charter and maintain our Gold Membership with the Supply Chain Sustainability School, partnering with key clients by completing learning pathways and attending targeted sustainability training.

SteelZero – building a sustainable future

The Group has strengthened its commitment to reducing carbon emissions by signing up to SteelZero, a global initiative to speed up the transition to a net zero steel industry. SteelZero is led by the international non-profit organisations, the Climate Group and ResponsibleSteel. Targeting net zero steel from the demand-side of the supply chain makes this the first initiative of its kind, with the potential for it to have significant impact on investment, policy, manufacturing, and production in the construction sector. The initiative is being signed up to by an increasing number of steel buyers, both in the UK and internationally. By signing up, we are making a public commitment to transition to procuring, specifying, or stocking 100 per cent net zero steel by 2050, with certain interim targets to be achieved by 2030.

Next sustainability priorities for action:

- In 2022, we will set new long-term net zero carbon targets for the Group, to further reduce carbon in our operations in line with climate science,
- Working to further understand and then refine our approach to address the GHG impact in our supply chain and other Scope 3 emissions,
- In 2022, we will build on our Group waste management process and will set diversion from landfill and other waste reduction targets,
- Continuing to report on our progress in line with the TCFD framework.



BUILDING A SUSTAINABLE BUSINESS

OUR PEOPLE

8 DECENT WORK AND ECONOMIC GROWTH

Why is it important?

Our people are our biggest asset and to protect this we are committed to effectively managing all aspects of health and safety and creating a safe, inclusive, and diverse working environment where everyone can thrive.

Management approach

Health and safety

This year more than ever, we have maintained our 'safety first' core value. We reacted quickly to the ever-changing situation resulting from the pandemic and implemented new operating procedures to support safe working in all our factories and sites, in accordance with national government, devolved administrations and industry guidelines. In 2021, the Group further invested in its health and safety processes, including adapting our operations to maintain social distancing, facilitating home working by office staff where appropriate, providing all colleagues with face masks, introducing sanitisation stations throughout our offices, factories and sites and temperature checks before entering our facilities. We were conscious of the difficulties faced by some of our people through extended periods of working from home and the effect this could have on their mental health. Further details of the actions the Group took and the support that was put in place for all our people can be found below and in 'showcasing our resilience to COVID-19' on page 08.

The Group's health and safety policy establishes our commitment to effectively managing all aspects of health and safety. The board's principal aim is to continue to ensure that, through example and encouragement and relevant training, we behave ethically and responsibly, particularly in the fields of health, safety and environmental management. Operating within the construction industry means many of our activities could be potentially dangerous to our colleagues and wider stakeholders and we recognise our duty of care to safeguard not only their physical health but also their mental health and wellbeing. Our executive committee continues to review safety performance monthly, primarily focusing

on the Group's injury frequency rate ('IFR'). Investigations are also completed on all RIDDORs (a reportable accident that results in a colleague's absence from work for more than seven consecutive days) and high potential near miss incidents ('HiPo'), with input from the Group SHE director, chief operating officer and the managing director of each business unit. Findings from investigations and 'lessons learned' are shared Group-wide using measures such as 'stand downs' or 'tool-box talks' to promote a collaborative approach to preventing accidents and incidents.

Engagement, inclusion and diversity

Louise Hardy is the Group's designated non-executive director responsible for workforce engagement. Louise is passionate about colleague engagement and is dedicated to ensuring that the views of our people are heard at board level. We communicate with colleagues across a range of media to ensure that they understand the operations, strategy and performance of both the Group and their respective Group company. As outlined above and in the 'principles of governance' section, the Group also has well-communicated colleague assistance helplines and whistleblowing procedures.

In 2022, Louise will lead a comprehensive workforce engagement programme. The aim of this programme is to gather a deeper understanding of colleagues' perspectives on which to build a sustainable Group-wide approach for ongoing dialogue.

'Integrity' is one of the Group's core values. We are committed to promoting diversity and equality through employment practices, that are free from discrimination and in accordance with human rights principles. We encourage diversity and promote inclusivity as we believe that diversity of gender, age, thought, experiences and expertise enhance our ability to operate ethically, innovatively and sustainably.

We offer National Vocational Qualifications to a vast majority of our workforce, the administration and co-ordination of which is dealt with by an in-house team of vocational experts. This team allows us to efficiently deal with amendments within the industry awarding bodies, including the Engineering Construction Industry Training Board ('ECITB') and the UK Metal Decking Association ('UKMDA'), through the year without relying on external sources.

The Group continues to operate annual Save As You Earn ('SAYE') schemes to allow our colleagues to share in the continued success of the Group. All our colleagues are eligible to participate in the Group's defined benefit pension scheme and have the option to make their own contributions though salary sacrifice. We also continue to offer collective benefits such as cycle to work, childcare vouchers and a discount scheme.

2021 achievements

Health and safety

In 2021, a new platform for reporting SHE incidents and completing inspections was implemented, enabling us to target and achieve improvements by identifying trends leading to enhanced reporting, root cause and data analysis. We have maintained our Group-wide ISO 45001 and 14001 certifications, along with additional client and sector-specific certifications.

Despite the challenges of adapting our operations during the year to maintain social distancing, we have seen a positive and significant reduction in injury rates, resulting in an IFR (including JSSL) of 1.48, compared to 1.81 in 2020, improving upon our Group targets in the process. The Group's accident frequency rate ('AFR') (including JSSL) for the year, which is based solely on the level of RIDDORS (reportable accidents) was 0.18, which continues to outperform the industry average. This represents a slight increase from the prior year AFR of 0.15 but this was not wholly unexpected given the significant improvement in the AFR over recent years.

In the early stages of the pandemic, we risk assessed all our construction sites and modified our operations to ensure no work was undertaken if we could not fully comply with the guidance issued by the UK and local governments and the Construction Leadership Council. Although COVID-19 restrictions were in place for the majority of 2021, Group directors undertook 49 director site safety visits in the year, engaging with colleagues on key issues such as safety performance and wellbeing.

Our new intranet, SeverfieldConnect, which was launched in 2021, has allowed us to keep colleagues up to date on the strategy, performance and progress of the organisation, general company news and health and wellbeing issues. In response to COVID-19, SeverfieldConnect was also used to provide additional regular updates to colleagues and to provide practical advice and support during the pandemic, especially those working remotely, through a dedicated intranet page, Coronavirus Hub. This process was assisted by our team of 60 mental health first aiders. In 2021, we also rolled out our enhanced Employees Assistance Programme, which includes the launch of a new app (My Healthy Advantage), to provide support and advice to colleagues on physical and mental wellbeing issues.

We also regularly use social network sites and emails to deliver key messages to colleagues and to encourage the use of our new communications platforms for colleague engagement.

Engagement, inclusion and diversity

In June 2021, we appointed Rosie Toogood as a new non-executive director. This appointment was made after considering the board's existing skills set and seeking to improve, where appropriate, its diversity. As at 31 March 2021, the board had one female director (13 per cent), and Rosie's recent appointment increases the Group's percentage of women on the board to 22 per cent. Female representation on our executive committee is two (17 per cent) and of those reporting directly to members of the executive committee, female representation is much higher at 63 per cent with nearly all senior finance and HR roles being held by women.

BUILDING A SUSTAINABLE BUSINESS

OUR PEOPLE

8 DECENT WORK AND ECONOMIC GROWTH

During the year, we updated our succession plan which identifies and develops future senior leaders from within the business. We believe that being able to promote from within is critical so that we can retain specialist skills and experience, especially given the capabilities and expertise that we provide to our clients.

In 2021, despite the COVID-19 headwinds, we continued to invest in our people, through the continuous provision of training programmes. These include externally facilitated courses and events, together with a wide range of training courses that are provided internally by our dedicated in-house HR and SHE teams.

We also continued to promote our graduate and apprenticeship schemes, which are particularly focused on welders and technical staff, in particular our metal fabricator apprenticeship programme, which we developed in conjunction with the Institute of Apprenticeships.

The Severfield Foundation

The Severfield Foundation ('the Foundation'), our registered charitable incorporated organisation, has continued to be a great success during the year, from raising funds and awareness for several local and national charities to encouraging engagement among our employees. The Foundation's national partner charity is the Alzheimer's Society. Since our two-year partner-relationship with the Alzheimer's Society started, the Foundation, through the Group's dedicated and generous employees, has raised over £72,000.

Along with supporting our national charity partner, the Foundation also worked with several nominated local charities for each of our company subsidiaries, including Bolton Hospice, Aisling Centre, St Catherine's, Yorkshire Air Ambulance and York Mind.

Number of staff by region

	2021	2020
England	1,121	1,031
Wales	7	9
Northern Ireland	320	347
Republic of Ireland	9	8
Scotland	8	7
Europe	6	6
	1,471	1,408

Job creation / employee turnover

	2021 (number)	2021 (%)
Jobs created – Group	175	12%
Employee turnover – Group	180	12%

OUR PROSPERITY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Why is it important?

Striving for continuous improvement across our four sustainability focus areas, is essential to support the long-term success and sustainability of the Group. Continually delivering value, in an ethical and transparent manner, helps to build strong relationships with customers, suppliers and shareholders, increasing our prospects of accessing new business opportunities.

Management approach

As outlined in the 'principles of governance' section above, our interactions with stakeholders are governed by several key corporate policies and procedures, including modern slavery, human rights, anti-bribery, competition law and whistleblowing. Our policies require us to conduct our business in an open and honest way, and, as a result, we aim to have a positive impact on our local communities in which we operate.

A lot of the value the Group creates is redistributed throughout the local communities, through payments to local suppliers, to our local workforce (wages and benefits), to the Group's providers of our financing facilities and other capital providers (interest payments, loan repayments and dividends) and as donations to local charities and community groups supported by our colleagues.

We acknowledge that improving our sustainability performance is only possible if we collaborate with businesses that share our commitment. Our supply chain predominantly consists of subcontractors working on our sites, and materials suppliers. We have a comprehensive Group-wide supplier accreditation process, managed through our central procurement team, which continually assesses our supply chain on areas including quality, safety, responsible manufacturing and ethical resourcing to ensure compliance with the Group's policies.

We believe in treating our suppliers and subcontractors fairly and with respect. Our three main business units are all signatories of the Prompt Payment Code ('PPC'). Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices remained a major area of focus throughout the year and even more so against the backdrop of COVID-19.

Through our ongoing capital investment programme, we will continue to upgrade and replace existing equipment where appropriate, with new state-of-the art technology to help drive production efficiencies, and to expand the capital equipment base where there is a strong return on investment case. We also have a progressive dividend policy where funding flexibility is maintained to ensure there are sufficient cash resources to fund the Group's requirements, including our capital investment programme.

The UK margin performance continues to reflect improvements to our operational execution, including the benefits from our programme of projects categorised under the banner of 'SSS'. These initiatives continue to focus on manufacturing efficiency and improving many aspects of our internal operations, including the application of Lean manufacturing techniques, optimisation of factory processes and production flows, quality control and cost reduction programmes, all of which have served the Group well during the pandemic.

2021 achievements

In 2021, the Group generated economic value of £363.3m (2020: £327.4m), an increase of 11 per cent from the prior year and distributed £343.2m (2020: £306.1m), resulting economic value retained of £20.1m (2020: £21.3m).

For the Prompt Payment Code reporting period of 1 October 2020 to 31 March 2021, all the Group's businesses that are signatories of the PPC, reported that at least 95 per cent of invoices were paid within 60 days.

BUILDING A SUSTAINABLE BUSINESS

OUR PROSPERITY

During the year, 97 per cent of the Group's suppliers were subject to our annual supply chain contractor due diligence reviews to ensure our supply chain maintains the highest operational and ethical standards.

We continue to invest in excess of depreciation through the Group's ongoing capital investment programme, and capital expenditure in 2021 was £6.6m (2020: £6.5m), taking our capital investment in the Group to close to £50m over the last seven years. In 2021, recognising the importance of dividends to our shareholders and to our investment case, we paid ordinary dividends of £8.9m (2020: £8.9m), resulting in net investment of 25 per cent (2020: 29 per cent). Net investment in this context means capital expenditure minus depreciation divided by dividend payments.

The benefits of 'SSS' operational improvements were seen in our profit performance and an underlying profit before tax of £24.3m (2020: £28.6m), which was achieved despite the COVID-19 related disruption experienced by the Group which particularly impacted profitability in Q1.

Key metrics:

Economic value

£m	2021	2020
Economic value generated	**363.3**	327.4
Economic value distributed	**(343.2)**	(306.1)
Economic value retained	**20.1**	21.3

Taxes paid

£m	2021	2020
Taxes paid	**4.6**	6.0

OUR PRINCIPLES OF GOVERNANCE

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Why is it important?

Integrity is one of our core company values and this means that we conduct our business lawfully and ethically. We strive to uphold the highest standards of ethics and act with integrity in accordance with our values.

Good governance is key to ensuring the Group's long-term sustainability. The board has overall responsibility for the Group's sustainability strategy and determining its risk appetite. The level of risk it is considered appropriate to accept in achieving the Group's strategic objectives is reviewed and validated by the board. The appropriateness of the mitigating actions is determined in accordance with the board-approved risk appetite for the relevant area. This process includes the identification and management of climate-related and other sustainability-related risks.

Following the launch of our new sustainability policy in 2020, we established a sustainability executive working group to focus on the evolution of our sustainability strategy and to set the Group's sustainability targets and metrics in accordance with the UN SDGs. We have also created a separate sustainability climate-related risk register to ensure that material risks are identified and managed effectively. The following risks were identified, all of which have been considering when establishing our sustainability strategy (none of these risks are sufficiently elevated at present to warrant disclosure as one of the Group 'principal risks' on pages 76 to 86.

- Failure to reduce emissions,
- Compliance with legislation (climate and other ESG metrics),
- Compliance with external requirements / expectations (climate and other ESG metrics),
- Sustainability of steel,
- Climate risk per se (extreme weather, global warming etc.).

In 2022 and beyond, the Group's sustainability committee will continue to engage with a wide range of senior managers and colleagues across the Group to oversee the day-to-day implementation of our sustainability strategy and report on the progress of the Group to the executive committee, who ultimately report to the board.

This gives us a well-defined management structure to help us achieve our sustainability objectives.

Board of directors
Responsible for the Group sustainability strategy

Executive committee

Sustainability executive working group
Sustainability committee
Oversee strategy implementation and review progress against our strategic objectives

Supported by senior management
including Group sustainability manager and Group procurement manager

Wider employee groups
Implement the Group's strategy and report on performance within their sites

Management approach

Business ethics and compliance with the Group's policies and procedures, which establish the rules of conduct within Severfield, are all extremely important. We ensure compliance by ensuring all our colleagues are fully trained on the content of our key corporate policies, including modern slavery, human rights, anti-bribery, competition law and whistleblowing (see below for further details).

BUILDING A SUSTAINABLE BUSINESS

OUR PRINCIPLES OF GOVERNANCE

These policies require all colleagues not only to operate in compliance with applicable laws and regulations, but also in accordance with internal controls and reporting requirements. They are regularly reviewed and updated and frequent training via our e-learning platform, Cognito, is provided to all relevant colleagues. The Group's suite of policies is available on our website.

As set out in our Group assurance map and compliance framework, the board also relies on our financial controls, compliance with the Group's authorisation policy and general management oversight and review of financial and other reporting. All our businesses operate local processes to ensure policies are effectively implemented.

2021 achievements

We have a comprehensive Group-wide supplier accreditation process which involves reviewing and scoring supplier performance on criteria such as quality and safety and providing them with constructive feedback. During the year, we were awarded 'A' rating in the CDP's annual supplier engagement rating, improving on our 'A minus' rating in the previous year. This is designed to evaluate and drive action on corporate supply chain engagement on climate issues. The scope of the review includes governance, targets, value chain emissions and supplier engagement strategies.

In 2021, the Group had no incidents of bribery or corruption confirmed during the year (either relating to 2021 or previous years) and there were no incidents of discrimination reported during the year (either through HR or whistleblowing disclosures). In addition, the Group received no fines or sanctions imposed for legal or regulatory breaches (including HSE and environmental) or relating to non-compliance with laws and regulations during the year.

During the year, the majority of our colleagues, including all office and senior factory and site personnel, completed regular ethics training (using Cognito) based on the Group's following policies:

- whistleblowing policy,
- anti-bribery policy,
- competition law compliance policy,
- health and safety policy,
- equal opportunities and diversity policy,
- share dealing code,
- information security policy,
- social media policy,
- social and sustainability policy,
- modern slavery statement.

Modern slavery

The board annually reviews and approves the Group's modern slavery statement. The 2021 statement is available on our website and explains the actions taken to ensure that we do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act 2015. This year we undertook a more detailed risk assessment of our supply chain, trained all relevant staff in awareness of modern slavery and encouraged key suppliers to undertake training through the Supply Chain Sustainability School.

Human rights

We remain committed to protecting and respecting the human rights of our colleagues and those who work throughout our supply chain. As a company operating within the UK, the key human rights issue we face is equality, which we address with training and promoting inclusivity.

Anti-bribery and corruption

Bribery and corruption are criminal offences in the countries in which the Group operates. We have a responsibility to our stakeholders to conduct our business in an honest and ethical manner. Our Group policy prohibits all forms of bribery, both in giving and receiving, wherever it operates. This includes our colleagues and any agent, contractor, consultant or business partner acting on our behalf or under our control.

Whistleblowing

We encourage effective and honest communication, and we respond immediately to any malpractice brought to our attention. Our whistleblowing policy enables anyone to raise genuine concerns about malpractice in the knowledge that their concerns will be taken seriously and that they will be protected from possible reprisals by colleagues and management.

We also publish details for Protect, an independent charity, allowing colleagues to raise concerns or seek advice from someone outside of the Group. Any whistleblowing report is immediately reported to the Group's legal director, Group HR director or Group SHE director, as appropriate, and is investigated quickly with appropriate feedback provided to the whistle blower.

Tax transparency

The Group is committed to compliance with all applicable tax laws and regulations across all the countries in which we operate. We focus on ensuring that, across the wide remit of taxes, the Group has comprehensive governance and risk management processes in place to allow us to meet our obligations.

We maintain a good, open and honest working relationship with HMRC, seeking to clarify any areas of potential uncertainty in relation to new or existing tax legislation at an early stage, and we have regular meetings with them to update on the Group's performance and structure. We do not engage in any aggressive tax planning of tax avoidance schemes.

We have rigorous procedures in place for preventing the facilitation of tax evasion and ensure that all relevant colleagues are trained in the key aspects of the relevant legislation.

HOW WE MANAGE RISK

Strong and effective risk management is at the heart of how the directors run the business and supports the achievement of the Group's strategic objectives.

Our key focus areas in 2021

COVID-19

The impact of the COVID-19 pandemic was a major area of focus during, in particular, the first half of the year and, as reported last year, we coped well with the challenges presented by COVID-19, keeping our factories operational and our construction sites open, for almost all of the year by implementing strict precautions, including enhanced levels of cleaning, additional hygiene facilities and social distancing.

Brexit

The risks associated with Brexit remained a key focus during the year due to the lack of clarity on the long-term trading relationship that would be established with the EU and we implemented a detailed contingency plan in preparation for Brexit to allow us to continue our operations with the least impact by ensuring that the flow of goods (both imports and exports) continued unimpeded. The new trading arrangements with the EU, which came into effect from 1 January 2021, have not had a significant impact on the Group's operations.

ESG matters

We have established a sustainability working group which is in the process of creating a separate sustainability risk register and setting out the Group's roadmap to compliance with the Listing Rules for Climate-related Financial Disclosures ('TCFD'), which will require us to disclose in next year's annual report how the Group has identified, assessed and managed ESG risks.

Read more about **building a sustainable business** on pages 60 to 75

Our future priorities for 2022

Some of our main priorities (and emerging risks) this year will be:

- Continued focus on the recovery of the market from COVID-19;
- Continued identification and mitigation of sustainability risks;
- Continued focus on staff engagement and culture in order to maintain good industrial relations; and
- Continued focus on cyber security risk.

Changes to principal risks

The following changes have been made to the Group's principal risks in 2021:

- Commercial and market environment risk was downgraded from high to medium risk, reflecting both the relative certainty provided by the agreement of a UK-EU trade deal and the resilience provided by our market sector, geographical and client diversity, which has enabled the Group to navigate well through the challenging market conditions during the COVID-19 pandemic.
- COVID-19 risk was downgraded from high to medium risk, reflecting the Group's ability over the past 12 months to deal with the challenges presented by COVID-19, and the reducing impact of the pandemic itself due to the ongoing roll-out of the global vaccination programme and the easing of lockdowns.
- Supply chain risk was upgraded from medium to high risk, reflecting the impact of demand issues caused, in part, by COVID-19, on the capacity levels of and product availability from certain of our supply chain partners. This has been exacerbated by significant increases in the price of iron ore for some suppliers which led to similar increases in the price of some steel products over the same period.
- Mispricing a contract (at tender) risk was downgraded from medium to low risk, reflecting the improved ability of the Group's businesses to price complex projects.
- We have renamed IT resilience risk as Cyber security risk since we now regard the risk of a deliberate cyber-attack which breaches our defences as our principal IT risk.

Other principal risks remain largely unchanged from last year. Changes have also been made to the detailed descriptions of mitigation to reflect ongoing activity in the year.

Risk appetite

The level of risk it is considered appropriate to accept in achieving the Group's strategic objectives is reviewed and validated by the board. The appropriateness of the mitigating actions is determined in accordance with the board-approved risk appetite for the relevant area.

The organisation's approach is to minimise exposure to reputational, financial and operational risk, while accepting and recognising a risk and reward trade-off in the pursuit of its strategic and commercial objectives. Operating in the construction industry, the reputation of the Group is imperative to its continued success and cannot be risked. Consequently, it has a zero tolerance for risks relating to health and safety. However, management recognises that certain strategic, commercial and investment risks will be required to seize opportunities and deliver growth in line with the Group's strategic objectives.

The Group establishes its risk appetite through use of delegated authorities so that matters considered higher risk require the approval of senior management or the board. These include, but are not limited to, tender pricing, bid submissions, approval of contract variations and final account settlements, capital requirements, procurement, and certain legal and strategic matters.

Risk management process

The board has overall responsibility for the Group's risk management and systems of internal control and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. An ongoing process has been established for identifying, evaluating and managing the significant risks faced by the Group. This includes emerging risks such as climate-related risks and cyber security risks.

The audit committee, on behalf of the board, formally reviews principal and emerging risks and mitigations for the Group and each of the businesses on a biannual basis. The key elements of this risk management process are:

- Senior management from all key disciplines and businesses within the Group continue to be involved in the process of risk assessment and monitoring in order to identify and assess Group objectives, key issues, emerging issues and controls. Further reviews are performed to identify and monitor those risks relevant to the Group as a whole. This process feeds into our assessment of long-term viability and encompasses all aspects of risk, including operational, compliance, financial, strategic, and ESG issues.

- Identified risk and emerging risk events, their causes and possible consequences are recorded in risk registers. Their likelihood and potential business impact and the control systems that are in place to manage them are analysed and, if required, additional actions are developed and put in place to mitigate or eliminate unwanted exposures. Individuals are allocated responsibility for evaluating and managing these risks within an agreed timetable.
- Ongoing risk management and assurance is provided through various monitoring reviews and reporting mechanisms, including the executive risk committee (chaired by the chief executive officer) which convenes on a weekly basis and has the primary responsibility to identify, monitor and control significant risks to an acceptable level throughout the Group. The committee receives information on relevant risk matters from a variety of sources on a regular basis.
- Subsidiary company boards consider and report on risk on a monthly basis as part of the monthly business review process. In doing so they identify emerging risks. 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.
- On a quarterly basis, the significant risks identified by the Group's businesses are discussed in detail with each management team. In addition, the Group legal director and Group IT director meet on a quarterly basis to review IT risks facing the Group and the ESG risk review committee (comprising the Group legal director, the Group SHE director, Group financial controller and the Group sustainability manager) meet on a quarterly basis to review ESG risks facing the Group. The outcome of these discussions is collated and reported to the executive committee.
- The risk registers of each business, together with the Group IT risk register, and the Group ESG risk register are updated and, together with a consolidated Group risk register compiled by the executive committee, are reported to the audit committee twice yearly, to ensure that adequate information in relation to risk management matters is available to the board and to allow board members the opportunity to challenge and review the risks identified and to consider in detail the various impacts of the risks and the mitigations in place.
- A Group assurance map is used to co-ordinate the various assurance providers within the Group and a compliance framework provides the board with a ready reference tool for monitoring compliance across the Group.

Group board

Risk appetite

First line of defence

Management activity

Divisional boards

Internal controls:

- Project management procedures
- Health and safety
- Financial control
- Cash and working capital management

Second line of defence

Group oversight

Group policies

- Group authorisation policy
- Group finance manual
- Contract sign-off process
- Purchase guidelines
- Quality manual
- SHE policies
  - Information security management policy

Committees

- Executive committee, risk committee, safety leadership team, Group human resource committee and sustainability committee
- Audit committee
- Nominations committee
  - Information security management committee

Third line of defence

Independent review

Divisional boards

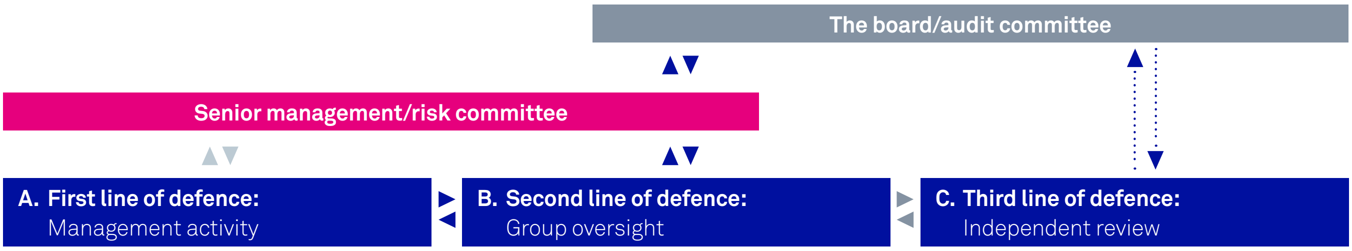
Internal controls:

- External audit
- Internal audit
- Other third-party assurance

HOW WE MANAGE RISK

Three lines of defence

The Group manages risk by operating a 'three lines of defence' assurance model (management activity, Group oversight and independent review), which is mapped against the Company's principal risks. This process is summarised in the Group assurance map.



A. First line of defence: Management activity

The first line of defence involves senior management implementing and maintaining effective internal controls and risk management procedures. These internal controls cover all areas of the Group's operations. 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 against material misstatement or loss. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's objectives. The Group's policies and procedures are continuously under review and improved to ensure they are adequate for our current circumstances.

The key features of the Group's framework of internal controls are as follows:

Project management procedures

Project risk is managed throughout the life of a contract from the tender stage to completion. Individual tenders for projects are subject to detailed review with approvals required at relevant levels and at various stages from commencement of the tender process through to contract award. Tenders above a certain value and those involving an unusually high degree of technical or commercial risk must be approved at a senior level within the Group. Robust procedures exist to manage the ongoing risks associated with contracts. Regular monthly contract reviews to assess contract performance, covering both financial and operational issues, form an integral part of contract forecasting procedures.

Health and safety

SHE issues and risks are continually monitored at all sites and are reviewed on a monthly basis by senior management and the board. The Group has a well-developed health and safety management system for the internal and external control of health and safety risks which is managed by the Group SHE director. This includes the use of risk management systems for the identification, mitigation and reporting of health and safety management information.

Financial control

The Group maintains a strong system of accounting and financial management controls. Standard financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements.

The Group operates a comprehensive budgeting and forecasting system. Risks are identified and appraised throughout the annual process of preparing budgets. The annual budget and quarterly forecasts are approved by the board.

A formal quarterly review of each business's year-end forecast, business performance, risk and internal control matters is carried out by the directors of each business unit with the chief executive officer, Group finance director and chief operating officer in attendance.

Cash and working capital management

Cash flow forecasts are regularly prepared to ensure that the Group has adequate funds and resources for the foreseeable future and is in compliance with banking covenants. Each business reports its cash position daily. Actual cash performance is compared to forecast on a weekly basis.

B. Second line of defence: Group oversight

The first line of defence is supported by certain Group policies, functions and committees which, in combination, form the second line of defence.

Group policies

Internal controls across financial, operational and compliance systems are provided principally through the requirement to adhere to the Group finance manual, divisional procedures and a number of Group-wide policies (such as the Group authorisation policy, the contract sign-off process, the purchase guidelines, the anti-bribery policy, the Competition Law compliance policy, the quality manual, the health and safety policy and the environmental policy). During the year, we were audited successfully on our ISO 27001 accreditation for our information security management system and a separate committee reviews any information security issues impacting the Group. This continues to give further assurance as

to the Group's resilience to cyber risk, which is a subject that is also discussed regularly at main board level.

These policies are supported by statements of compliance from all directors and letters of assurance ('LoA') from the Group's four managing directors. LoAs are required twice yearly, one at 30 September and one at 31 March, supported by an internal control questionnaire ('ICQ') which is completed by each business unit and which provides a detailed basis for management to satisfy themselves that they are complying with all key control requirements. The responses in these ICQs are subject to ongoing independent review by PwC, the Group's internal auditor.

The following main committees provide oversight of management activities:

The executive committee, risk committee and safety leadership team

These committees are responsible for the identification, reporting and ongoing management of risks and for the stewardship of the Group's risk management approach.

The audit committee

The board has delegated responsibility to this committee for overseeing the effectiveness of the Group's internal control function and risk management systems.

The nominations committee

This committee ensures that the board has the appropriate balance of skills and knowledge required to assess and address risk and that appropriate succession plans are in place.

C. Third line of defence: Independent review

The third line of defence represents independent assurance which is provided mainly by the internal auditor, external auditor and various external consultants and advisers. External consultants and advisers support management and the board through ad hoc consulting activities, as required, including the Group's insurance brokers Lockton LLP.

Internal auditor

The audit committee annually reviews and approves the PwC internal audit programme for the year. The committee reviews progress against the plan at each of its meetings, considering the adequacy of audit resource, the results of audit findings and any changes in business circumstances which may require additional audits.

The results of internal audits are reported to the executive team and senior management and, where required, corrective actions are agreed. The results of all audits are summarised for the audit committee along with progress against agreed actions.

Annual review of effectiveness

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the annual report and are regularly reviewed by the board. The board monitors executive management's action plans to implement improvements in internal controls that have been identified following the processes described above.

The board confirms that it has not identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the board and resulting discussions.

HOW WE MANAGE RISK

Principal risks

The board has carried out a robust assessment of the principal risks and uncertainties which have the potential to impact the Group's profitability and ability to achieve its strategic objectives. These are set out in the table below. This list is not intended to be exhaustive. Additional risks and uncertainties not presently known to management or deemed to be less significant at the date of this report may also have the potential to have an adverse effect on the Group.

Principal risk	Strategic pillars	Link to KPIs	Movement	Scoring
1 Health and safety	Growth, Clients, Operational excellence, People	1, 2, 3, 5, 6, 7	No change	High
2 Supply chain	Growth, Clients, Operational excellence	1, 2, 3, 4, 5, 6	Upward trend	High
3 Commercial and market environment	Growth, Clients, Operational excellence, People	1, 2, 3, 4, 5, 6	Downward trend	Medium
4 COVID-19	Growth, Clients, Operational excellence, People, India	1, 2, 3, 6, 7	Downward trend	Medium
5 Cyber security	Growth, Clients, Operational excellence	1, 2, 4, 5	No change	Medium
6 Failure to mitigate onerous contract terms	Growth, Clients, Operational excellence	1, 2, 3, 4, 5	No change	Medium
7 Indian joint venture	India	2, 5	No change	Medium
8 People	People	1, 2, 3, 5, 6	No change	Medium

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

KPI key

1. Underlying operating profit and margin (before JVs and associates)
2. Underlying basic earnings per share ('EPS')
3. Revenue growth
4. Operating cash conversion
5. Return on capital employed ('ROCE')
6. Order book
7. Accident frequency rate ('AFR') / Injury frequency rate ('IFR')

Movement

- Upward trend
- Downward trend
- No change
- New

Scoring

- High
- Medium

Scoring

The scoring of each risk as high or medium is determined based on the scoring of the risk within the Group's risk register. This scoring takes into account the potential impact and likelihood associated with the crystallisation of each risk (the assessment of impact takes into account both potential and reputational issues). Only high and medium risks are considered sufficiently significant for disclosure in the annual report.

HOW WE MANAGE RISK

1 Health and safety

Movement: ▶
Scoring: High

Description

The Group works on significant, complex and potentially hazardous projects, which require continuous monitoring and management of health and safety risks. Ineffective governance over and management of these risks could result in serious injury, death and damage to property or equipment.

Impact

A serious health and safety incident could lead to the potential for legal proceedings, regulatory intervention, project delays, potential loss of reputation and ultimately exclusion from future business. Continued changes in legislation can result in increased risks to both individuals and the Group.

Mitigation

- Established safety systems, site visits, safety audits, monitoring and reporting, and detailed health and safety policies and procedures are in place across the Group, all of which focus on prevention and risk reduction and elimination.
- Thorough and regular employee training programmes.
- 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.
- Close monitoring of subcontractor safety performance.
- Priority board review of ongoing performance and in-depth review of both high potential and reportable incidents.
- Regular reporting of, and investigation and root cause analysis of, accidents, incidents and high potential near misses.
- Behavioural safety cultural change programme.
- Occupational health programme, including mental health.
- Achievement of challenging health and safety performance targets is a key element of management and staff remuneration.
- Detailed due diligence on new acquisitions and effective integration of SHE processes and systems.

2 Supply chain

Movement: ▲
Scoring: High

Description

The Group is reliant on certain key supply chain partners for the successful operational delivery of contracts to meet client expectations. The failure of a key supplier, a breakdown in relationships with a key supplier or the failure of a key supplier to meet its contractual obligations could potentially result in some short to medium-term price increases and other short-term delay and disruption to the Group's projects and operations. There is also a risk that credit checks undertaken in the past may no longer be valid.

Impact

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

Mitigation

- Initiatives are in place to select supply chain partners that match our expectations in terms of quality, sustainability and commitment to client service – new sources of supply are quality controlled.
- Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements, including for steel supply.
- Contingency plans developed to address supplier and subcontractor issues (including the failure of a supplier or subcontractor).
- Monthly review process to facilitate early warning of issues and subsequent mitigation strategies.
- Strong relationships maintained with key suppliers, including a programme of regular meetings and reviews.
- Implementation of best practice improvement initiatives, including automated supplier accreditation processes.
- Key supplier audits are performed within projects to ensure they can deliver consistently against requirements.

3 Commercial and market environment

Movement: ▼
Scoring: Medium

Description

Changes in government and client spending or other external factors could lead to programme and contract delays or cancellations, or changes in market growth. External factors include national or market trends, political or regulatory change (including the UK's trading relationship with the EU) and the impact of pandemics (including the ongoing COVID-19 pandemic).

The pace of recovery from the impact of the COVID-19 pandemic is unpredictable and could have a negative impact on future trading. A sluggish recovery from COVID-19 could adversely impact investor confidence.

Lower than anticipated demand could result in increased competition, tighter margins and the transfer of commercial, technical and financial risk down the supply chain, through more demanding contract terms and longer payment cycles.

Impact

A significant fall in construction activity and higher costs could adversely impact revenues, profits, ability to recover overheads and cash generation.

Mitigation

- Regular reviews of market trends performed (as part of the Group's annual strategic planning and market review process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively.
- Regular monitoring and reporting of financial performance, orders secured, prospects and the conversion rate of the pipeline of opportunities and marshalling of market opportunities is undertaken on a co-ordinated Group-wide basis.
- Selection of opportunities that will provide sustainable margins and repeat business.
- Strategic planning is undertaken to identify and focus on the addressable market (including new overseas and domestic opportunities).
- Monitoring our pipeline of opportunities in continental Europe and in the Republic of Ireland, supported by our European business venture.
- The Group closely monitors the flows of goods and people across borders for ongoing work with the EU and specific risks and related mitigations are kept under review by the executive committee. We have taken steps to ensure we can continue to deliver on current and future contractual commitments.
- Maintenance and establishment of supply chain in mainland Europe.
- Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients.
- Close engagement with both customers and suppliers and monitoring of payment cycles.
- Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts.
- Continuing use of credit insurance to minimise impact of customer failure.
- Strong cash position supports the business through fluctuations in the economic conditions of the sector.
- Acquisition of Harry Peers and DAM Structures has broadened our reach and cross-selling opportunities, resulting in improved market resilience.

HOW WE MANAGE RISK

4 COVID-19

Movement: ▼
Scoring: Medium

Description

Future outbreaks of COVID -19 or temporary emergency public measures such as travel bans, quarantines and public lockdowns could have a significant and prolonged impact on global economic conditions, disrupt our clients and suppliers, supply chain, increase employee absenteeism and adversely impact our operations.

Impact

The effect of the disease itself is on the health and safety of our people, the financial impact of implementing social distancing measures across our business and the economic slowdown that has resulted from the measures taken in the UK and abroad to combat the virus. A significant fall in demand and higher costs could adversely impact revenues, profits, ability to recover overheads and cash generation.

Mitigation

- The safety and wellbeing of our clients and employees continues to be our overriding priority. Our executive committee are monitoring events closely with regular board oversight evaluating the impact and designing appropriate response strategies.
- The availability of cash resources and committed facilities together with strong cash flow to support our strong financial position, including the Group's longer-term viability.

5 Cyber security

Movement: ▶
Scoring: Medium

Description

Cyber-attack could lead to IT disruption with resultant loss of data, loss of system functionality and business interruption.

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

Impact

Prolonged or major failure of IT systems could result in business interruption, financial losses, loss of confidential data, negative reputational impact and breaches of regulations.

Mitigation

- IT is the responsibility of a central function which manages the majority of the systems across the Group. Other IT systems are managed locally by experienced IT personnel.
- Significant investments in IT systems which are subject to board approval, including anti-virus software, off-site and on-site backups, storage area networks, software maintenance agreements and virtualisation of the IT environment.
- Specific software has been acquired to combat the risk of ransomware attacks.
- Group IT committee ensures focused strategic development and resolution of issues impacting the Group's technology environment.
- Robust business continuity plans are in place and disaster recovery and penetration testing are undertaken on a systematic basis.
- Data protection and information security policies are in place across the Group.
- Cyber-crimes and associated IT risks are assessed on a continual basis and additional technological safeguards introduced. Cyber threats and how they manifest themselves are communicated regularly to all employees (including practical guidance on how to respond to perceived risks).
- ISO 27001 accreditation achieved for the Group's information security environment and regular employee engagement undertaken to reinforce key messages.
- Insurance covers certain losses and is reviewed annually to establish further opportunities for affordable risk transfer to reduce the financial impact of this risk.

6 Failure to mitigate onerous contract terms

Movement: ▶
Scoring: Medium

Description

The Group's revenue is derived from construction contracts and related assets. Given the highly competitive environment in which we operate, contract terms need to reflect the risks arising from the nature or the work to be performed. Failure to appropriately assess those contractual terms or the acceptance of a contract with unfavourable terms could, unless properly mitigated, result in poor contract delivery, poor understanding of contract risks and legal disputes.

Impact

Loss of profitability on contracts as costs incurred may not be recovered, and potential reputational damage for the Group.

Mitigation

- The Group has identified minimum standard terms which mitigate contract risk.
- Robust tendering process with detailed legal and commercial review and approval of proposed contractual terms at a senior level (including the risk committee) are required before contract acceptance so that onerous terms are challenged, removed or mitigated as appropriate.
- Regular contract audits are performed to ensure contract acceptance and approval procedures have been adhered to.
- We continue to work with the British Constructional Steelwork Association to raise awareness of onerous terms across the industry.
- Through regular project reviews we capture early those occasions where onerous terms could have an adverse impact and are able to implement appropriate mitigating action at the earliest stage.

7 Indian joint venture

Movement: ▶
Scoring: Medium

Description

The growth, effective management and performance of our Indian joint venture ('JSSL') is a key element of the Group's overall strategy. The Indian market has continued to expand rapidly in recent years and the factory in Bellary has been expanded to meet current and anticipated future market growth.

The COVID-19 pandemic continues to impact JSSL and recovery is likely to take several months.

Impact

Failure to effectively manage our operations in India could lead to financial loss, reputational damage and a drain on cash resources to fund the operations.

Mitigation

- In line with the response of the Group to COVID-19, local management in India continue to closely monitor cash flows and debt repayments, together with adopting specific actions to minimise the disruption on the joint venture operations during the Indian economy's recovery period.
- Restructuring undertaken in 2021 to reduce overheads without compromising future growth plans.
- Robust joint venture agreement and strong governance structure is in place.
- Regular schedule of annual visits to India by UK executive and senior management to review operations and ensure appropriate oversight (suspended during the COVID-19 outbreak and conducted by video conference).
- Two members of the Group's board of directors are members of the joint venture board.
- Regular formal and informal meetings held with both joint venture management and joint venture partners.
- Contract risk assessment, engagement and execution process now embedded in the joint venture.
- Operational improvement programmes remain ongoing.
- Ongoing review of controls environment and risk management processes undertaken by Group senior management.

HOW WE MANAGE RISK

8 People

Movement: ▶
Scoring: Medium

Description

The ability to identify, attract, develop and retain talent is crucial to satisfy the current and future needs of the business. Skills shortages in the construction industry are likely to remain an issue for the foreseeable future and it can become increasingly difficult to recruit capable people and retain key employees, especially those targeted by competitors.

Impact

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

A high level of staff turnover or low employee engagement could result in a decrease of confidence in the business within the market, customer relationships being lost and an inability to focus on business improvements.

Mitigation

- Training and development schemes to build skills and experience, such as our successful graduate, trainee and apprenticeship programmes.
- Detailed succession planning exercise commenced in 2021 to identify and develop future senior leaders within the business.
- Attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve employees' working lives.
- Annual appraisal process providing two-way feedback on performance.
- Internal communications continually improved.
- Interviews with leavers and joiners to understand the reasons for their decision.
- A new HR structure implemented in 2021 and updated HR systems rolled out covering payroll and a new employee portal.
- Three-year goals have been defined around HR operational efficiency, evolving our approach to performance, development and careers and creating an environment where Severfield employees feel listened to and are fairly recognised and rewarded for their contribution to the Group.
- A review of the company approach to flexible working practices has been undertaken in the light of our experiences of remote working during the COVID-19 pandemic.

SECTION 172 STATEMENT

Section 172 of the Companies Act 2006 requires each director to act in the way they consider, in good faith, would most likely promote the success of the Group for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the Group's reputation for high standards of business conduct; and
- the need to act fairly as between members of the Group.

The board has complied with these requirements. Details of the board's decisions in 2021 to promote long-term success, and how it engaged with stakeholders and considered their interests when making those decisions, can be found throughout this strategic report and in the governance report.

A key board decision is ensuring that we continue to have the right strategy in place for sustainable growth. Details of our strategy, how it is resourced and the value generated for stakeholders are set out in the strategic report. The board monitors the Group's culture to ensure that high standards of business conduct are maintained.

Open, constructive dialogue with our employees and other key stakeholders is critical to inform the board's decisions. Whilst the board has overall responsibility for managing relationships with all our stakeholders, some stakeholder groups are most practicably engaged with directly by Group companies. The board supervises this engagement with their stakeholders, principally through quarterly management meetings between the boards of each Group company and the executive directors.

The board has identified its and the Group's key stakeholders as our shareholders, employees and funders. With facilitation through Group departmental activity our Group companies manage relationships with their employees, clients, supply chain partners and local communities. Details of how we have engaged as a Group with our stakeholders can be found on page 30 of the strategic report. The board's direct engagement with stakeholders is described on page 104 in the governance report, the board's key decisions and the stakeholder groups considered during the decision-making process are set out on page 104, and the board's monitoring of the Group's culture is described on pages 106 to 107.

The board monitors the Group's performance in relation to safety and the reduction of greenhouse gas emissions and waste on a monthly basis.

Approval of strategic report

The strategic report is approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary

16 June 2021

OUR GOVERNANCE

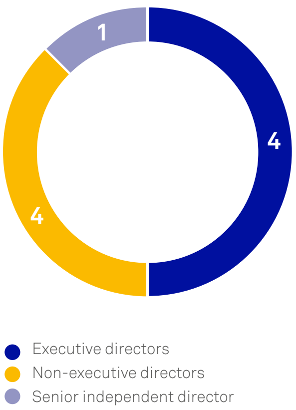
CONTENTS

OUR BOARD OF DIRECTORS

Executives and non-executives

The quality of our workforce, senior leadership team and board leaves us well placed to deliver on our strategic expectations and for long-term growth.

Board composition



Committee membership

- N Nominations
- A Audit
- R Remuneration
- Committee chairman

Kevin Whiteman N R

Chairman

Independent: Yes

Appointed: 2014 to the board and 2020 as Chairman.

A chartered engineer, Kevin was chief executive of Kelda Group and Yorkshire Water for a period of eight years. Kevin was non-executive chairman of both companies from 2010 to March 2015. In 2013 he became chairman of the privately owned NG Bailey and in January 2018 a non-executive director of Cadent Gas Limited and chair of their remuneration committee. Kevin was previously chief executive officer for the National Rivers Authority, regional director of the Environment Agency, and has held a number of senior positions within British Coal. He was also chairman for Wales and West Gas Networks (UK) Limited and has been a trustee for WaterAid UK.

Alan Dunsmore

Chief executive officer

Independent: No

Appointed: 2010

Alan was appointed chief executive officer in February 2018. Prior to this he held the position of Group finance director from March 2010 to March 2017 and acting chief executive officer from April 2017 to January 2018. He joined the Group from Smiths Group plc. He joined Smiths Group's 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.

Louise Hardy A N R

Non-executive director

Independent: Yes

Appointed: September 2019

As an executive director, Louise was the European project excellence director at AECOM, and between 2006 and 2013 was a director at Laing O'Rourke, the largest privately owned construction company in the UK. At Laing O'Rourke she worked within the CLM consortium, the private sector delivery partner for the London 2012 Olympics. Prior to this, Louise worked at Bechtel as a project director and worked for London Underground on the Jubilee Line extension project.

Louise is a non-executive director at Polypipe Group plc and Crest Nicholson Holdings plc. She is also a non-executive director at Ebbsfleet Development Corporation.

Louise was appointed as our workforce engagement director in 2021.

Ian Cochrane

Chief operating officer

Independent: No

Appointed: 2013

Ian joined the Group in 2007, following the acquisition of Fisher Engineering. Ian worked at Fisher Engineering for 26 years, starting in the drawing office and progressing to managing director in October 2007. He previously held the position of Group operations 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.

Adam Semple

Group finance director

Independent: No

Appointed: 2018

Adam joined the Group in 2013 from Firth Rixson Group, prior to which he was with PwC in both Leeds and London, where he qualified as a chartered accountant in 2002. He was appointed as Group finance director in February 2018, having held the role on an acting basis since April 2017. He was previously the Group's financial controller.

Tony Osbaldiston

A N R

Non-executive director (chairman of the audit committee)

Independent: Yes

Appointed: 2014

A chartered accountant having qualified with PwC, Tony was previously finance director of Max Factor UK, Volvo Cars UK, Raymarine plc and FirstGroup plc. He was also deputy group chief executive officer and chief executive officer of FirstGroup America. Tony has been non-executive director and chairman of the audit committee of BSS Group plc, chairman of the remuneration committee of Synstor International plc and non-executive director and chairman of the audit and risk committee of the Serious Fraud Office. He is currently chairman of Encon, the insulation and building products distributor.

Alun Griffiths

A N R

Senior independent director (chairman of the remuneration committee)

Independent: Yes

Appointed: 2014

Alun was a main board member at WS Atkins plc from 2007 to 2014 having held a number of business leadership and corporate roles, most recently as Group HR director. He has significant experience in HR and organisational development, business development and project delivery. He is vice chairman and chairs the licensing committee and the remuneration committee at the Port of London Authority, chairs the transaction committee at the Ramboll Group and chairs the remuneration committee at Anchor Hanover.

His HR experience, together with his wider business experience and understanding of the views of investors, is well suited to his role at Severfield.

Derek Randall

Executive director and managing director at JSW Severfield Structures

Independent: No

Appointed: 2011

Derek previously held the position of executive director for business development until his appointment in December 2013 as managing director of JSW Severfield Structures Limited (JSSL), our joint venture in India. Before joining the Group, most of Derek's career was with Corus Group (now Tata Steel) where his last position was as commercial director of the long products division. Derek has held a number of international board positions with Corus and served on the executive council of the Steel Construction Institute.

Rosie Toogood

A N R

Non-executive director

Independent: Yes

Appointed: June 2021

Rosie is currently the chief executive officer of Legal & General Homes Modular Limited and a director of Legal & General Homes (Services Co) Limited and brings a wealth of manufacturing and engineering experience within the modular homes, aerospace and nuclear sectors to the board.

She previously had a successful 25-year career at Rolls-Royce, progressing from a finance executive into procurement and technology positions followed by a general management role where she was executive vice president for the compressors division.

She originally qualified as a chartered accountant with Ernst & Young and was a non-executive director at Derwent Housing Association from 1999 to 2008.

OUR EXECUTIVE COMMITTEE

Alan Dunsmore
Chief executive officer
For details, see board of directors on page 90

Ian Cochrane
Chief operating officer
For details, see board of directors on page 90

Derek Randall
Executive director and managing director at JSW Severfield Structures
For details, see board of directors on page 91

Adam Semple
Group finance director
For details, see board of directors on page 91

Rob Evans
Managing director, Severfield (UK)

Rob became managing director of Severfield (UK) in 2020. Within this role, Rob is responsible for all aspects of the contracting businesses for both Severfield (UK) and Severfield Europe.

Rob joined the Group over 23 years ago and during that time has performed various commercial and quantity surveying roles within the Group, including at Severfield (Design & Build) and Severfield (NI).

Rob has been involved with many iconic projects, including Tottenham Hotspur FC stadium, Liverpool FC stadium, 22 Bishopsgate and several projects at Wimbledon.

Mike Mannion
Operations director (manufacturing), Severfield (UK)

Mike joined Severfield in 2019 as operations director (manufacturing) for Severfield (UK). Mike oversees the production across both our Dalton and Lostock factories.

Previously managing director of Weir Valves & Controls, Mike has over 25 years of business management experience and an extensive knowledge of manufacturing and supply chains, obtained within sector-relevant, international settings.

Jim Martindale
Managing director, Severfield (Design & Build) and Severfield (Products & Processing) and Harry Peers

Jim joined Severfield (Design & Build), formerly Atlas Ward Structures, in 1994 as a design engineer. He previously held the positions of engineering manager, design director and deputy managing director, a role that he performed until his current appointment in January 2014.

Jim has been involved in the successful delivery of many major projects throughout the UK during his career with Atlas Ward (which was acquired by the Group in 2005). He is also an associate member of the Institution of Structural Engineers.

Adrian McCoy
Managing director, Severfield (NI)

Adrian became managing director of Severfield (NI) in 2020. He joined Severfield (NI), formerly Fisher Engineering, in 2000 as a project manager. His background was engineering design and project management and he attained chartered Membership of the Institution of Civil Engineers in 1994. During this role, Adrian was involved with the delivery of all aspects of our projects, with particular focus on construction and commercials.

He was elevated to the role of projects director in 2008, where he had overall responsibility for the successful delivery of numerous projects, before his promotion to managing director in 2020.

During his 20-year career with Severfield he has delivered projects throughout the UK, Ireland and Europe.

Mark Sanderson

Group legal director and Company secretary

Mark joined the Group in September 2013.

His previous role was as group legal director for the utility specialist Enterprise plc until its acquisition by Ferrovial in April 2013. He also worked in private practice as a projects partner, most recently at Walker Morris and prior to that, Pinsent Masons.

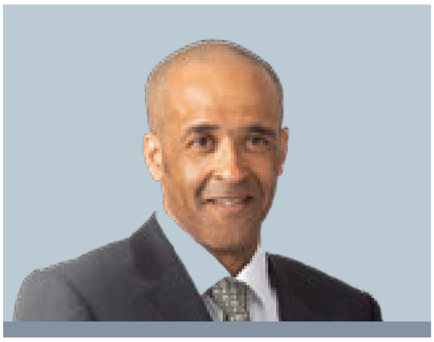
Mark has over 20 years of experience in the construction and engineering sector and is also a non-executive director and trustee at Fitzroy Support, a learning disabilities charity.

Phillipa Recchia

Group SHE director

Phillipa joined Severfield in July 2016 from housing and regeneration specialist Keepmoat and she has previously worked as corporate head of health and safety at global industries services company KAEFER Group.

Phillipa has over 20 years' experience within the construction industry and a strong background in behavioural safety.



Kevin Campbell

Managing director, Construction Metal Forming Limited

Kevin joined the Severfield Group in 2011 as head of operations at the Group's joint venture, JSW Severfield Structures in India, where he held several senior positions and had an instrumental role in the development of the business over a period of three and a half years. Since returning to the UK, Kevin has held the position of business improvement associate director of Severfield plc, business unit director of Severfield (Products & Processing) Limited and was appointed to his current role from 1 April 2020.

Kevin has over 20 years' experience in the structural steelwork industry, with his career centred on senior manufacturing roles. He is a chartered engineer with the Institution of Engineering and Technology and holds an MBA gained at the University of Bradford.

Samantha Brook

Group HR director

Sam joined Severfield in March 2020, having been group people director at Drax Group and group head of HR at Croda International (both listed companies). She is a Chartered Fellow of the Chartered Institute of Personnel and Development ('CIPD'), is passionate about helping people realise their full potential and is ideally suited to lead our people strategy, talent development and workforce engagement initiatives.

OUR CHAIRMAN'S VIEW ON GOVERNANCE

THIS YEAR WE HAVE ADAPTED OUR GOVERNANCE TO MEET THE CHALLENGES OF REMOTE WORKING AND THE UNCERTAINTY CREATED BY THE COVID-19 PANDEMIC, ENSURING THAT STRONG AND ROBUST CORPORATE GOVERNANCE CONTINUES TO BE AT THE HEART OF EVERYTHING WE DO

"The effective stewardship and good governance of our Group remains a high priority for the board. I am delighted that this year we appointed Alun Griffiths as our senior independent director and have recently appointed Rosie Toogood to the board to ensure we remain Code compliant."

KEVIN WHITEMAN
NON-EXECUTIVE CHAIRMAN

Dear shareholder

I am pleased to introduce, for the first time, the Group's corporate governance report on behalf of our board of directors ('the board'). As indicated in last year's annual report I took over as chairman from John Dodds after the AGM in 2020 and I continue to ensure that effective stewardship and good governance of our Group remains a high priority for the board.

The Group is committed to business integrity, high ethical values and professionalism in all of its activities and this report will outline how the board has ensured that we have effective corporate governance in place to help support the creation of long-term value for our shareholders and stakeholders.

During the period from the AGM, following the retirement of John as chairman, until June 2021 we did not comply with provision 9 of the Code requiring at least half of the board, excluding the chairman, to be independent but have now rectified that situation with the appointment of Rosie Toogood to the board. We took the view on John's retirement that we would not appoint a new non-executive director immediately but, mindful of the annual strategic review coming up in December 2020, would take the opportunity to review the existing mix of skills and experience represented on the board and look to complement those in a way that was consistent with our overall strategy. We were also able to take into account our succession plan as a number of board directors will be retiring from the board over the next two to three years.

Our corporate governance report is set out on pages 96 to 107 and explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code') and outlines how the board ensures that high standards of corporate governance are maintained. In this report we have set out the steps that we are proposing to take to be ready for the required climate-related disclosure next year and we have sought to address some of the issues raised by the FRC in their report on governance reporting issued in November 2020, as well as issues raised by our institutional shareholders.

Leadership and board composition

As well as the appointments highlighted above, we have this year refreshed our succession planning and appointed Louise Hardy as our workforce engagement director. This is part of our focus on workforce engagement which was delayed last year due to COVID-19. This work will also encompass purpose and culture.

Board evaluation

During the year, an internal board evaluation was undertaken by Alun Griffiths, the senior independent director. This included an evaluation of my own performance as well as that of the other directors and the board's committees. Overall, the evaluation was positive and further details can be found in the corporate governance report on page 107.

Audit, risk and internal control

The board has confirmed that this annual report is fair, balanced and understandable. The audit committee, supported by management, has adopted a process to enable the board to take this view. You can find an explanation of the process we have used to make this determination in the audit committee report on page 110.

The board delegates certain of its responsibilities to the board committees to enable it to carry out its functions effectively. A diagram of the board governance structure is set out on page 96.

Remuneration

Our executive director remuneration arrangements are intended to support the achievement of the Group's objectives and strategy. With the support of the remuneration committee's oversight, we continue to believe that the current remuneration packages help to appropriately incentivise management to sustain long-term value for shareholders.

Our remuneration policy was updated and approved at our AGM in September 2020. Our remuneration policy, a summary of how we intend to operate that policy in 2022, and a review of the remuneration committee's activities, together with bonus and PSP performance in 2021, can be found in the remuneration report on pages 121 to 128.

Talent and diversity

The board is mindful of diversity and we believe that a diverse company (in all regards, not just gender) provides a balanced and effective organisation. The board is represented by a range of industry experience and personal strengths and, from 16 June 2021, the board consisted of two female and seven male directors. Further details of their skills and experience can be found on pages 90 and 91. The board is committed to ensuring it and our wide employee base remains diverse and the Group has an equal opportunities and diversity policy to support this. As an equal opportunities employer, we are committed to encouraging diversity and eliminating discrimination in both our role as an employer and as a provider of services and to achieving and maintaining a workforce that broadly reflects the communities in which we operate. During the year, we continued to monitor the gender pay gap and our gender balance across all tiers of management. We are confident that our gender pay gap does not stem from paying men and women differently for the same or equivalent work. We are mindful though, that the sector in which we operate is male dominated and we have set up initiatives to monitor diversity in our recruitment and to seek to attract a more diverse workforce over time.

Relations with shareholders

The board and I recognise the responsibility we have to a range of stakeholders, including customers, employees, subcontractors and suppliers and the environment and communities in which we operate.

We have an open and effective dialogue with shareholders, with regular meetings being held with institutional shareholders. The AGM will be held on 1 September 2021 and I encourage all shareholders to vote via proxy for the resolutions.

Kevin Whiteman
Non-executive chairman

16 June 2021

UK Corporate Governance Code

This year, the Company has complied fully with the requirements of the 2018 Code throughout the accounting period and to the date of this report, with one exception, namely non-compliance with provision 9 requiring at least half of the board excluding the chairman to be independent, during the period 3 September 2020 to 15 June 2021.

CORPORATE GOVERNANCE REPORT

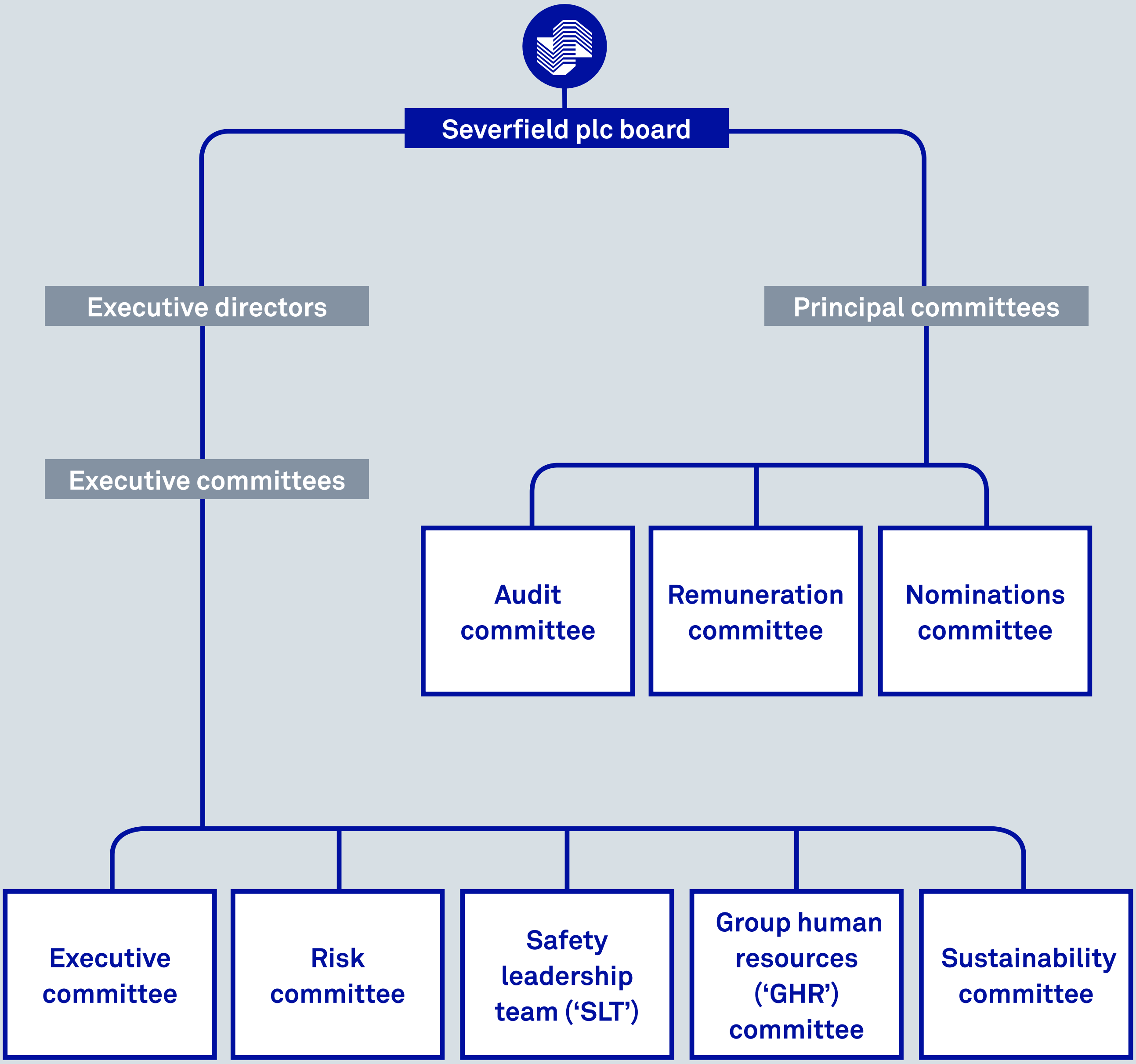
Board leadership and company purpose

The Group is controlled through the board of directors of Severfield plc. We believe that, consistent with Principle A of the Code, the board is effective and entrepreneurial. We have described in the strategic report how opportunities and risks to the future success of the business have been considered and addressed, together with the sustainability of the Group's business model. In this section we describe how our governance contributes to the delivery of our strategy and how the board monitors and drives culture and purpose.

Structure of the board

The membership of the board is stated on pages 90 and 91. The board consists of the chairman, four other non-executive directors and four executive directors.

Alan Dunsmore has board-level responsibility for ESG matters and employment matters; Ian Cochrane has board-level responsibility for health and safety matters.



Independence

All the non-executive directors are considered by the board to be independent in character and judgement and no cross-directorships exist between any of the directors.

At no time during the year ended 31 March 2021 did any director hold a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking other than the executive directors in relation to their service agreements. The directors have put in place procedures to ensure the board collectively, and the directors individually, comply with the disclosure requirements on conflicts of interest set out in the Companies Act 2006. The interests of the directors in the share capital of the Company and its subsidiary undertakings and their interests under the performance share plan and other share schemes are set out in the remuneration report on page 135. Save as disclosed in the directors' remuneration report, none of the directors, or any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries.

Directors to stand for election

The Company's articles of association require the directors to offer themselves for re-election at least once every three years. Notwithstanding this, and in accordance with the recommendations of the Code, the Group's policy is that all the directors retire at each AGM and may offer themselves for re-election by shareholders. Accordingly, all of the existing directors whose biographies are set out on pages 90 and 91 will be standing for re-election at the 2021 AGM.

The board is satisfied that the performance of all of the non-executive directors continues to be effective and that they continue to show commitment to their respective roles. Non-executive directors are not appointed for a fixed term. The terms and conditions of appointment of non-executive directors are available for inspection on request.

Role of the chairman, chief executive officer and senior independent director

The board has agreed a clear division of responsibility between the chairman and chief executive officer and their roles and responsibilities are clearly established and set out in writing.

Severfield board

The board is responsible for providing effective leadership to the Group to create and deliver long-term shareholder value. This includes setting the strategic direction of the Group, reviewing all significant aspects of the Group's activities, overseeing the executive management and reviewing the overall system of internal control and risk management. 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 Group's strategic direction, codes of conduct, annual budgets, progress towards achievement of those budgets, significant capital expenditure programmes and the annual and half year results.

CORPORATE GOVERNANCE REPORT

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's committees described as follows.

Member(s)/Committee	Responsibilities
Non-executive chairman **Kevin Whiteman**	The chairman, Kevin Whiteman, is mainly responsible for managing the business of the board, evaluating its performance and setting the agenda for board meetings to ensure that adequate time is allocated to the discussion of all agenda items, facilitating the effective contribution of all directors. The chairman acts as an ambassador for the Company and provides effective communication between the board and its shareholders. The chairman, together with the Company secretary, ensures that the directors receive clear information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested to ensure clarity of informed debate. The board papers contain the chief executive officer's, the Group finance director's and chief operating officer's written reports, high-level papers on each business area, key metrics and specific papers relating to agenda items. The board papers are accompanied by a management information pack containing detailed financial and other supporting information. The board receives occasional ad hoc papers on matters of particular relevance or importance. The board also receives presentations from various business units and senior managers, including members of the executive committee.
Chief executive officer **Alan Dunsmore**	As the senior executive of the Company, Alan Dunsmore is responsible to the chairman and the board for directing and prioritising the profitable operation and development of the Group. The chief executive officer is responsible for the day-to-day management of the operational activities of the Group, assessing and implementing strategy and implementing the board's decisions. The chief executive officer chairs an executive committee consisting of the members indicated on pages 90 to 93. 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. He also, together with the Group finance director and chief operating officer, holds quarterly meetings with each of the business unit boards to review all operational issues and meets with an executive risk committee comprising himself, the Group finance director, chief operating officer and the Group legal director on a weekly basis to discuss any key issues affecting the business. In addition, he chairs a safety leadership team ('SLT') and a Group human resources ('GHR') meeting once a month, both of which consist of certain other members of the executive management team and business unit managing directors.
Senior independent director **Alun Griffiths**	Alun Griffiths is the senior independent non-executive director whose role is to provide a sounding board for the chairman and to serve as an alternative source of advice to the chairman for the other non-executive directors. The senior independent director is available to shareholders if they request a meeting or have concerns which contact through the normal channels has failed to resolve, or where such contact is inappropriate. He also leads the performance review of the chairman and the board, taking into account the views of the executive directors. **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 published on the website. 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 board on a monthly basis. Details of the work of the audit, nominations and remuneration committees are set out on pages 108 to 140.

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2021 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	3	6	3
Executive directors				
Alan Dunsmore	11			
Ian Cochrane	11			
Derek Randall	11			
Adam Semple	11			
Non-executive directors				
Kevin Whiteman[1]	11	1	6	2
Tony Osbaldiston	11	3	6	3
Alun Griffiths	11	3	6	3
Louise Hardy	11	3	6	3
John Dodds[2]	5		4	1

[1] Kevin Whiteman did not attend the nominations committee meeting to consider his appointment as chairman, which was chaired by Alun Griffiths. Kevin Whiteman has not been a member of the audit committee since his appointment as chairman on 4 September 2020 but attended the audit committee meeting in June 2020, prior to his appointment as chairman.

[2] John Dodds attended all board and remuneration and nominations committee meetings held prior to his retirement on 4 September 2020. As chairman, he was not a member of the audit committee.

Board and committee meetings were all held remotely by video conference during the year because of the COVID-19 pandemic. During April and May 2020, when the pandemic was in its early stages and its impact on the Group was uncertain, weekly board update video calls were also held. In the ordinary course, board meetings are primarily held at the Group's head office in Dalton, North Yorkshire, but also at various locations in London, and at the offices of the Group's other operating subsidiaries and, from time to time, at clients' sites to provide non-executive directors the opportunity to increase their knowledge and understanding of the Group's operations.

Board strategy review

In addition to regular scheduled board and board committee meetings, the board undertakes an annual strategy away day each year. The agenda for the strategy away day is agreed in advance, including specific strategic issues which have been raised at previous board meetings or requested by the board. The strategy review is supplemented by an annual market update following a similar format although shorter in length.

CORPORATE GOVERNANCE REPORT

Board meetings for the current year

During the financial year, the board discussed and implemented the following key actions:

April 2020

- Reviewed the statement of compliance in accordance with the Modern Slavery Act
- Reviewed papers detailing the Group's European and HS2 pipelines
- Reviewed and approved the Group's pre-close trading statement issued on 21 April 2020
- Reviewed and approved the publication of the Company's articles of association in accordance with Listing Rule 9.2.6ER(1)

June 2020
2 meetings

- Received feedback from the chairman of the nomination committee on the board evaluation undertaken by the senior independent director
- Presentation on the Group's strategy for mitigating cyber risk by the Group IT director, including consideration of the risk of remote working due to the COVID-19 pandemic
- Considered the Group's position on reclaiming furlough monies via the government's Coronavirus Job Retention Scheme and deferring a decision on whether to do so until end July
- Reviewed and approved RNS announcing the appointment of Kevin Whiteman as chairman to replace John Dodds on his retirement at the forthcoming AGM
- Reviewed and approved annual report and accounts and results announcement
- Agreed to defer a decision on final dividend until the end of July when the impact of the COVID-19 pandemic would be clearer
- Assessed going concern and longer-term viability of the Group with particular emphasis on the impact of the COVID-19 pandemic and reviewed the effectiveness of internal controls
- Reviewed a paper on significant aspects of the accounting treatment of the acquisition of Harry Peers
- Reviewed a detailed paper on the Group's cash position with particular emphasis on the impact of the COVID-19 pandemic
- Approved the launch of a new savings plan under the rules of the Severfield Sharesave Scheme and the relevant share options that would be granted as a result

July 2020

- Reviewed first quarterly forecast for the year ended 31 March 2021
- Reviewed feedback on year-end results
- Decided not to proceed to make any claim under the government's Coronavirus Job Retention Scheme
- Approved the payment of a final dividend
- Reviewed and approved a paper recommending that, due to the impact of the COVID-19 pandemic, the 2020 AGM be a closed meeting without shareholders but offering shareholders the opportunity to ask questions in advance of the meeting
- Reviewed and approved AGM notice
- Reviewed and approved the Company's RNS dated 30 July 2020 announcing the dividend, the AGM and the Group's decision not to claim furlough monies from the government

September 2020
2 meetings

- Reviewed and approved the Group's AGM trading statement issued on 3 September 2020
- Reviewed and approved an update to the Company's conflicts of interest policy, received annual statements of compliance from directors and approved related parties list and conflicts of interest disclosed
- Reviewed a paper summarising investor representatives' comments ahead of the AGM
- Reviewed a detailed paper on the cash position of JSSL with particular emphasis on the impact of the COVID-19 pandemic
- Received a detailed presentation from the Company's brokers, Jefferies, on valuation and strategy considerations
- Reviewed and approved the Company's RNS dated 6 October 2020 announcing the payment of directors' bonuses for the financial year ending 31 March 2020
- Considered and approved additional equity investment in Construction Metal Forming Limited to fund expansion work which had been delayed due to the impact of the COVID-19 pandemic
- Approved the appointment of Alun Griffiths as Senior Independent Director with effect from 1 October 2020

November 2020
2 meetings

- Management briefing from Severfield (Design & Build)'s estimating director on business development
- Technical briefing from the Group's principal design engineer
- Presentation on sustainability from the Group SHE director
- Management briefing from Severfield (UK)'s associate sales and estimating director on sales and estimating
- Reviewed and approved half year results
- Approved interim dividend
- Reviewed second quarterly forecast for the year ended 31 March 2021

December 2020

- Off-site strategy day

January 2021

- Management briefing from Severfield (NI)'s operations director on project management
- Presentation on health and safety from the Group SHE director
- Reviewed investor feedback on interim results
- Reviewed and approved the acquisition of DAM Structures
- Reviewed and approved a paper on the Atlas Ward defined benefit pension scheme triennial valuation

March 2021
2 meetings

- Management briefing from Severfield (UK)'s production director on production planning and management
- Reviewed and approved the Company's RNS dated 26 February 2021 announcing the acquisition of DAM Structures
- Agreed appointment of Louise Hardy as workforce engagement director
- Reviewed third quarterly forecast for the year ended 31 March 2021
- Agreed scope and content of board and chairman evaluation
- Management briefing from the Group engineering director
- Noted the register of directors' interests in shares
- Reviewed and approved the budget for the year ending 31 March 2022

CORPORATE GOVERNANCE REPORT

Key matters considered by the board

Board and committee activities are organised throughout the year to address the matters reserved for the board.

An overview of the board's principal decisions during the year, including how the board has taken into account the factors set out in section 172 of the Companies Act 2006 ('the Act'), is set out below. From the board's engagement with its stakeholders, see page 30 and 31, there were no specific issues raised during the year that influenced these decisions.

Principal decision	Action taken	Outcome	Key stakeholder groups considered
Dealing with the COVID-19 pandemic	Regularly reviewed the challenges presented by the COVID-19 pandemic in the UK, Europe and in India and government announcements on social distancing and safety. These included detailed considerations as to how we could continue to operate safely in factories and on sites, and travel and accommodation issues for our workers. Implemented a series of precautionary cash management measures to ensure the Group could continue to trade as normally as possible and to protect its financial strength. Deciding not to reclaim furlough monies via the government's Coronavirus Job Retention Scheme.	Decision to carry on factory and site operations where, after analysis, we could continue to do so safely, implementing additional precautions and testing and monitoring the health of the workforce.	The safety of our colleagues was our primary consideration during this period, together with their and the Group's financial security. We also took into account the financial needs of our clients, supply chain, our shareholders and other stakeholders. In deciding not to reclaim furlough monies we also considered the wider purpose of the government's scheme and concluded that making a claim was not consistent with the aims of the scheme, which was to benefit those who had been worst affected by the COVID-19 pandemic.
Proposed acquisition of DAM Structures	Reviewed proposal to acquire entire share capital of DAM Structures.	Approved the acquisition which includes an earn-out arrangement with the principal shareholder and managing director.	The long-term impact of the acquisition is, we believe, beneficial to all of our stakeholders, contributing expected annual revenue of c.£20m and PBT of c.£2m, as a minimum, from its core operations. We expect the business to grow from this position in the future.
Strategy review	Comprehensively reviewed progress against strategy. Monitored market trends, including the macroeconomic environment, supported by comparative data and customer insight. Considered the impact of the strategic plan on the retention and development of employees. Reviewed the Group's long-term financial outlook and assessed and prioritised growth opportunities. Reviewed the Group's four-year strategic plan and divisional strategic plans and priorities to ensure they remained fit for purpose. Reviewed and approved the proposed definition of the Group's purpose.	Approved the four-year strategic plan and the proposed definition of the Group's purpose.	In approving the strategy and business plans and purpose, the views of all our stakeholders were considered. Our success depends on good relations with members of our workforce, customers and supply chain. Before publishing the Group's purpose, the views of our workforce will be considered via the voice forums.

Principal decision	Action taken	Outcome	Key stakeholder groups considered
Setting the annual Group budget and subsequent forecast modelling following the COVID-19 outbreak for going concern purposes	Reviewed Group budgets for FY22 and, following the COVID-19 outbreak, high-level profit and cash forecasts for the next 12 months. Reviewed general market conditions and key trends that support the Group's strategy.	Approved the viability statement and going concern assumption.	In reviewing the budget and subsequent forecasts, the board considered the impact on all stakeholders. Prior to approving and recommending dividend payments, the board considers the future cash requirements of the business, shareholder expectations and the need to provide our shareholders with sustainable returns over the longer term. This has been particularly important given COVID-19.
Determining the Group's approach to risk	Reviewed and made changes to the Group's principal risks and emerging risks that could impact the Group's strategic objectives. Considered the impact of risks arising from uncertainties in the market and the wider economy, including COVID-19.	Maintained as 'high' risk our assessment of the risk of a serious health and safety incident but reduced to 'medium' risk our assessment of the risk of the impact of adverse market conditions (including COVID-19 and Brexit).	The board considered the impact on all stakeholders, in particular those identified in the principal risks section on pages 76 to 86.
Recommending a final dividend	Initially deferred any decision on a final dividend until more data was available as to the impact of the COVID-19 pandemic on the Group's financial position.	Recognising the importance of the dividend to our investment case and our shareholders, we recommended the payment of a final 2020 dividend of 1.8p per share (maintaining the 2019 dividend level) once the board was comfortable that the impact of the COVID-19 pandemic was manageable and that it would not reclaim furlough monies under the government's Coronavirus Job Retention Scheme.	The board considered the impact on its shareholders of not declaring a dividend and balanced this with the needs of other stakeholders.
Pension valuation	Reviewed the latest triennial valuation of the Atlas Ward defined benefit pension scheme and the trustees' recommended deficit repair payment.	Approved an increase of £1 million in the Group's annual deficit contributions.	The board considered, primarily, the interest of the scheme's pensioners and deferred pensioners.
The Group's approach to sustainability and ESG matters	The board reviewed management's proposed approach to ESG matters.	The board approved management's proposed approach to the setting of targets and goals on ESG matters.	The board, mindful of its duty to promote the success of the Company and consider the broader interest of external stakeholders, took a proactive approach to considering how to minimise the impact of its operations on the environment.

CORPORATE GOVERNANCE REPORT

Engagement with stakeholders

The board considers the needs and priorities of each of the Group's stakeholders during its discussions and as part of its decision-making process. This, together with considering the long-term consequences of decisions and maintaining our reputation, is integral to the way the board operates.

Our stakeholder map identifies our key stakeholder relationships and the impact that the business has on each of those groups and our engagement with those groups. The table below summarises the board's understanding of the key interests of our stakeholders:

Clients	Workforce	Supply chain	Communities	Shareholders	Funders
Excellent customer service, with delivery of projects on time and to budget. Early contract engagement, providing problem-solving solutions and balancing time, cost and quality objectives.	A safe environment to work in, investment in personal development and career progression, and a fair, open and honest culture.	Fair treatment and respect, with prompt payment for work undertaken in a safe working environment, with opportunities for repeat business.	Operating ethically, causing minimal impact from our activities. Creating social value through employment opportunities, helping people back to work and investing in the local community by using local suppliers and services.	Robust operational and financial risk management, strong returns on investment decisions, effective communication of strategy and a progressive dividend policy.	Strong cash management, robust working capital management and risk management and good communication through regular financial updates.

With regard to our clients, supply chain and communities, these groups are recognised by the board as integral to our business model and, as such, are considered regularly by the board. In practice, however, our clients, supply chain and communities vary with each Group company and therefore the Group companies manage day-to-day engagement with these important stakeholder groups. Our Group SHE director and our Group head of procurement assist in managing relationships with those subcontractors and suppliers who are common to more than one Group company. Further details of our engagement with communities can be found on page 31.

The board engages directly with the Group's shareholders, suppliers, workforce and funders, and has undertaken the following activities in 2021:

Shareholders

Providing sustainable returns to our shareholders is a key factor in the board's decision-making. The chairman and the non-executive directors are available to meet with shareholders to listen to their views.

The board recognises the importance of communicating with its shareholders to ensure that its strategy and performance is understood. The Group encourages two-way communication with both its institutional and private investors and attempts to respond quickly to all queries received verbally or in writing.

The executive directors undertake a programme of regular communication with institutional shareholders and with analysts covering the Group's activities, its performance and strategy, and issues regular trading updates to the market.

Alan Dunsmore and Adam Semple attended several meetings with institutional shareholders, private investors and analysts during the year, at the time of the announcements of the Group's annual and half-year results. Feedback from those meetings was reported to the board, including the non-executive directors, and was factored into the board's strategy review and its decision to defer and then declare a final dividend.

The board generally uses the AGM to communicate with private investors and encourages their participation. The notice of the AGM, detailing all proposed resolutions, is posted to shareholders at least 20 working days before the meeting.

Suppliers

During the year, we implemented a detailed contingency plan in preparation for Brexit and worked closely with our key suppliers in agreeing our respective roles in undertaking the additional customs administration necessary to allow us to continue our operations with the least impact by ensuring that the flow of goods (both imports and exports) continued unimpeded. The board reviewed and approved the continuation of our prompt payment policy and throughout the year we continued to pay our suppliers on time.

Funders

The Group's finance director meets with the Group's banks and performance bond issuers to discuss the full-year and half-year results, to update them on the Group's performance and discuss any issues that they wish to raise. These meetings are important in ensuring that the Group has sufficient facilities available. The Group finance director advised the board that no issues or concerns had arisen during the course of these meetings that the board needed to consider in its discussions and decision-making.

Following the COVID-19 outbreak, the Group finance director held regular discussions with the Group's banks to discuss management's response to the crisis. Despite the challenges presented by the COVID-19 pandemic, the Group has a strong balance sheet and sufficient cash and committed funding in place during the current unprecedented period of uncertainty.

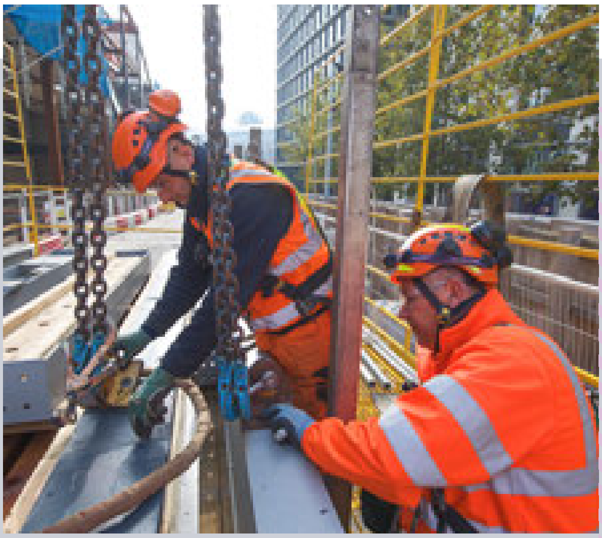
Board's monitoring of culture

The Group's purpose and culture are closely aligned with our core values which are focused on driving the right behaviours for the Group to succeed. Our culture provides an environment in which our workforce can operate safely, act instinctively with integrity, develop strong and long-term relationships with clients and suppliers, and are treated fairly and with respect. This way we can innovate, evolve and successfully deliver our strategic objectives. We do not experience the typical indications of poor culture such as high staff turnover and absenteeism or a poor attitude to training and the board was encouraged by the constructive approach taken by the workforce and by management to dealing with the impact of the COVID-19 pandemic by changing ways of working, travelling patterns and participating in other measures such as temperature testing and COVID-19 testing.

Our executive directors promote our core values throughout the Group. The board as a whole is responsible for ensuring that our culture is maintained. It does this by meeting with employees and senior managers, undertaking regular site visits and reading regular reports and presentations from Group companies on how they are operating their businesses and taking into account internal audit reports on matters which are heavily influenced by culture and behaviour. The non-executive directors also draw on their own experiences in other organisations in order to challenge and verify that the Group's values and behaviours remain effective. Our new chairman, Kevin Whiteman, instigated a series of one-to-one meetings with key managers soon after his appointment in order to understand culture better and has implemented a series of board briefings on a wide range of topics from managers of the business at different tiers of the organisation.

We reviewed and sought to re-define our purpose this year and are now consulting with our workforce via a series of voice forums in order to refine and develop our proposals based on their feedback. In addition, we launched our new intranet 'Severfield Connect' in 2021 to enable us to communicate better and develop a more integrated working culture and we plan to develop metrics which track engagement and to develop pulse surveys.

LISTENING TO OUR EMPLOYEES' VOICES



We recognise the importance of listening to employees to understand their concerns and to act on them. Although less frequently than normal, due to COVID-19, during the year, members of the board visited various sites across the Group and met with groups of employees, discussing with them their experiences and views. The board has agreed to undertake a comprehensive workforce engagement programme to gather a deeper understanding of colleagues' perspectives on which to build a sustainable Group-wide approach for ongoing dialogue. Unfortunately, the COVID-19 pandemic resulted in this work being delayed last year, but in 2022 we plan to launch our 'voice forums', to ensure meaningful and regular dialogue between board members and colleagues.

In 2021 we launched our new intranet, 'Severfield Connect'. This has enabled us to communicate with colleagues who are away from work, to share updates and information with them and to engage in dialogue through the comments feature. Colleagues across the Group have raised issues and questions about COVID-19 with management and these have been discussed openly with our executive directors and have informed our approach in many areas (for example, our approach to going above and beyond our contractual requirements on payment for periods of self-isolation). Throughout the year, our executive directors have kept our employees informed of our financial performance through newsletters, email notifications and briefing sessions, and made colleagues aware of any external factors and significant events that might have an impact on our business.

See pages 68 to 70 for further detail on how we engage with our employees.

CORPORATE GOVERNANCE REPORT

The table below sets out how the board monitors our culture to ensure that behaviours remain aligned with our core values.

What we monitor and measure	Board action in 2021
Core value – customer focus	
The executive directors keep the board updated on key projects and customer relationships. The board reviews material issues arising on contracts which may impact a Group company or the Group as a whole.	Reviewed Group company board summaries which included information on key clients and suppliers and the performance of contracts. Reviewed market information and tender feedback information, together with business development plans which focus on key client relationships and new clients with whom we wish to have future business. Approved Group company strategic plans which include information on key clients and client feedback.
Core value – safety first	
The executive reports include information on health and safety performance, including accident frequency rate, incident frequency rate, near misses and high potential incidents and absence days due to sickness/injury. The board regularly reviews information on the safety strategy, update on personal injury claims, training records and performance, interaction with the HSE, occupational health initiatives and key developments in the market which could impact on safety performance.	Regular monitoring of health and safety performance is a priority for the board and is the first agenda item for all board meetings. Board members attended site and factory safety visits during the year, encouraging employees to suggest improvements and share best practice. Reviewed ongoing behavioural safety programme. For more information, please read our **building a sustainable business** report on page 68
Core value – integrity	
The executive directors keep the board updated on the Group's ethical dealings with clients, suppliers and the workforce. We report on e-learning on ethical matters; supplier payment terms, gender pay and any issues of concern raised by employees whether by way of formal whistleblowing or otherwise. We have policies in place, including the Group's authorisation policy, competition law policy, anti-bribery policy, and expenses policy, and these are regularly reviewed.	Reviewed output from Cognito (our e-learning tool). Reviewed payment practices reporting submissions and prompt payment code disclosures. Reviewed and approved our modern slavery statement (see page 74). Reviewed statements of compliance from all directors and letters of assurance ('LoA') from the Group's four managing directors. Asking colleagues, customers and suppliers on factory and site visits for feedback on our performance. For more information, please read our **building a sustainable business** report on page 73
Core value – commitment	
The executive directors keep the board updated on how the Group is meeting its contractual and commercial commitments to our customers, our suppliers and our workforce.	Challenging the executive directors on any relationship issues arising with any of our customers, suppliers or workforce. Asking colleagues, customers and suppliers on factory and site visits for feedback on our performance.

Board evaluation process

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.

The Code attaches importance to boards having processes for individual and collective performance evaluation. The performance of individual directors is evaluated annually in conjunction with the remuneration review. The chairman meets with the non-executive directors at least annually to review their performance.

During the year, the board asked Alun Griffiths, the senior independent director, to undertake a formal evaluation of board effectiveness. This process was undertaken using a questionnaire which was completed by all members of the board and the company secretary and focused on the performance of the chairman and overall cohesiveness of the board. The key points arising from the evaluation were documented and discussed with the chairman. Areas reviewed this year included the effectiveness of the transition from one chairman to another and the lessons learned from undertaking board meetings remotely.

Professional development

Appropriate training and briefing is provided to all directors on appointment to the board, taking into account their individual qualifications and experience. This is supplemented with visits to the Group's operations and meetings with senior business unit management to develop each director's understanding of the business.

Training and updating in relation to the business of the Group and the legal and regulatory responsibilities of directors was provided throughout the year by a variety of means to board members, including presentations by executives, visits to business operations and circulation of briefing materials. Individual directors are also expected to take responsibility for identifying their training needs and to ensure they are adequately informed about the Group and their responsibilities as a director.

Non-executive directors are continually updated on the Group's business, its markets, social responsibility matters, changes to the legal and governance environment and other changes impacting the Group. During the year, the directors received updates on various best practice and regulatory and legislative developments. Particular attention was paid this year to the changes to reporting on ESG matters which will come into effect for next year's annual report.

All directors have access to the advice and services of the Group legal director and Company secretary who ensures that board processes are followed and good corporate governance standards are maintained. Any director who considers it necessary or appropriate may take independent professional advice in furtherance of their duties at the Company's expense. No directors sought such advice in the year.

The board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

Audit, risk and internal control

Financial and business reporting

The financial statements contain an explanation of the directors' responsibilities in preparing the annual report and the financial statements (page 141) and a statement by the auditor concerning their responsibilities (pages 144 to 153). The directors also report that the business is a going concern (page 116) and detail how the Group generates and preserves value over the longer term (the business model) and the Group's strategy for delivering its objectives in the strategic report (pages 32 to 41). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 59).

Modern slavery

The board annually reviews and approves the Group's modern slavery statement. The 2021 statement is available on our website at severfield.com and explains the actions taken to ensure that we do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act 2015. This year we undertook a more detailed risk assessment of our supply chain, trained all relevant staff in awareness of modern slavery and encouraged key suppliers to undertake training via the Supply Chain Sustainability School.

Annual report

The board is responsible for the preparation of the annual report and the financial statements to ensure that the annual report taken as a whole is fair, balanced and understandable.

The annual report is drafted by executive management with reviews undertaken by third-party advisers as required. Additional steps have been built into the reporting timetable to ensure that directors are given sufficient time to review, consider and comment on the annual report. Our external auditor reviews the narrative sections of the annual report to identify any material inconsistencies between their knowledge acquired during the audit and the directors' 'fair, balanced and understandable' statement and whether the annual report appropriately discloses those matters that they have communicated to the audit committee. A substantially final draft is reviewed by the audit committee prior to approval by the board.

Remuneration

The directors' remuneration report is on pages 118 to 140. It sets out the activities of the committee, the levels and components of remuneration and refers to the development of the remuneration policy.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE REVIEWS AND REPORTS TO THE BOARD ON THE GROUP'S FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AND THE INDEPENDENCE AND EFFECTIVENESS OF THE AUDITORS

"During the year, the committee's focus has continued to be on monitoring the integrity of financial reporting, financial judgements and the effectiveness of risk management and internal controls processes, especially in light of the uncertainties posed by the COVID-19 pandemic."

TONY OSBALDISTON
CHAIRMAN OF THE
AUDIT COMMITTEE

Membership

All committee members during the year were independent non-executive directors in accordance with the Code.

The members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the committee's duties. Tony Osbaldiston is a chartered accountant.

By invitation, there were a number of other regular attendees, including internal and external auditors. The chairman (John Dodds or Kevin Whiteman as appropriate), Alan Dunsmore, Adam Semple and Mark Sanderson also attended each meeting by invitation.

Meetings are held at least three times per annum and additional meetings may be requested by the external auditor.

There were three meetings in the year attended by all members.

Role and key responsibilities

The primary function of the committee is to assist the board in fulfilling its oversight responsibilities. This includes reviewing the financial reports and other financial information before publication. The committee assists the board in achieving its obligations under the Code in areas of risk management and internal control, focusing particularly on areas of compliance with legal requirements, accounting standards and the Listing Rules (Listing Authority Rules for companies listed on the London Stock Exchange), and ensuring that an effective system of internal financial and non-financial controls is maintained.

Number of meetings

3

Members

Tony Osbaldiston (chairman)

Alun Griffiths

Louise Hardy

Kevin Whiteman
(until his appointment as chairman on 3 September 2020)

Key achievements during 2020/2021

- Oversaw the continued development of the Group's systems of risk management and internal control.
- Reviewed and recommended to the main board the report and accounts for the 2021 interim accounts and the year ended 31 March 2021.
- Detailed consideration of the financial impact of the COVID-19 pandemic.
- Reviewed management's contingency plans for Brexit.

The committee also reviews the accounting and financial reporting processes, along with reviewing the roles of and effectiveness of the external auditor. The ultimate responsibility for reviewing and approving the annual report remains with the board.

The responsibility of the 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 Group's internal financial and non-financial controls and risk management.
- To make recommendations to the board in relation to the appointment and removal of the external auditor and to approve its remuneration and its 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 its objectivity in undertaking its work and monitoring its independence, taking into account relevant UK professional regulatory requirements and the auditor's period in office and compensation.
- To oversee the effectiveness of the internal audit process.
- To oversee the effectiveness of the external audit process, particularly with regard to the quality and cost-effectiveness of the auditor's work.
- To report to the board how it has discharged its responsibilities.

Activities of the committee

The committee addressed the following key agenda items in relation to the 2021 financial year:

- Reviewed the interim results for the period ended 30 September 2020 and the year-end results for the year ended 31 March 2021.
- Reviewed the significant management judgements reflected in the Group's results, including significant contract judgements.
- Discussed the report received from the external auditor regarding the audit of the results for the year ended 31 March 2021. This report included the key accounting considerations and judgements reflected in the Group's year-end results, comments on findings on internal control and a statement on independence and objectivity.
- Reviewed and agreed significant accounting risks and principal business risks for the year ended 31 March 2021.
- Reviewed the Group's risk register.
- Considered and reviewed JSSL's internal audit reports.
- Considered and reviewed management's papers on the accounting impact of the acquisition of Harry Peers.
- Considered and reviewed management's contingency plans in preparation for Brexit.
- Reviewed the carrying value of the Group's investment in JSSL in the light of the impact of the COVID-19 pandemic.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 31 March 2021.
- Reviewed the measures taken by management to monitor and review the effectiveness of the Group's internal control and risk management processes, to enable the board to make its annual review of effectiveness.
- Reviewed the long-term viability and going concern statements (in light of the COVID-19 pandemic) and the process undertaken by executive management to enable the board to make these statements.
- Considered the effectiveness of the external auditor, KPMG LLP ('KPMG'), their independence and reappointment for the year ending 31 March 2022.
- Reviewed PwC LLP's ('PwC') internal audit reports covering various aspects of the Group's operations, controls and processes and approved the internal audit plan.

Fair, balanced and understandable

The committee was provided with, and commented on, a draft copy of the annual report for the year ended 31 March 2021. At the request of the board, the committee also considered whether the annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. To enable the board to make this declaration, the committee received a paper from management detailing the approach taken in preparing the annual report. The committee is satisfied that, taken as a whole, the annual report and accounts is fair, balanced and understandable.

In carrying out the above processes, key considerations included ensuring that there was consistency between the financial statements and the narrative provided in the front half of the annual report (and that the use of alternative performance measures was appropriate and clearly articulated); that there is a clear and well-communicated link between all areas of disclosure; and that the strategic report focused on the balance between the reporting of weaknesses, difficulties and challenges, as well as successes, in an open and honest manner. In addition, the external auditor reviewed the consistency between the narrative reporting in the annual report and the financial statements.

Risk management and internal control

The board as a whole, including the audit committee members, considers the nature and extent of the Group's risk management and internal control framework and the risk profile that is acceptable in order to achieve the Group's strategic objectives.

AUDIT COMMITTEE REPORT

Details of the Group risk management and internal control processes and its principal and emerging risks are set out in the risk management section of the strategic report on pages 76 to 86 . As a result, it is considered that the board has fulfilled its obligations under the Code to carry out a robust assessment of the Company's emerging and principal risks.

Whistleblowing

The Group operates a comprehensive whistleblowing policy. Accordingly, staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The committee reviews adherence with this policy on an ongoing basis.

Viability statement

The committee has undertaken a detailed assessment of the viability statement and recommended to the board that the directors could have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. The viability statement can be found on page 59 of the strategic report.

Financial reporting and significant financial issues

The committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements.

'Contract valuation, revenue and profit recognition', like last year, is classified as a significant accounting risk. Following the acquisition of DAM Structures in February 2021, the other significant accounting risk considered this year was the 'valuation of intangible assets and contingent consideration for DAM Structures'.

Contract valuation, revenue and profit recognition

The committee reviewed and challenged the report of the Group finance director that set out the main contract judgements associated with the Group's significant contracts. The significant areas of judgement include the timing of revenue and profit recognition, the estimation of the recoverability of contract variations and claims, the estimation of future costs to complete and the estimation of claims received by the Group.

Valuation of intangible assets and contingent consideration for DAM Structures

The committee reviewed the report of the Group finance director that set out the provisional acquisition accounting positions for DAM Structures for the 2021 financial year and the provisional valuation of the material acquired intangible assets (customer relationships and order books), together with their associated amortisation periods.

The external auditor performed detailed audit procedures on the accounting risks above and reported their findings to the committee. The committee was satisfied that these matters had been fully and adequately addressed by management, appropriately tested and reviewed by the external auditor and that the disclosures made in the annual report were appropriate.

In addition, the committee considered a number of other judgements which have been made by management, none of which had a material impact on the Group's 2021 results. These include going concern, profit recognition of the Indian joint venture investment, the valuation of pension scheme liabilities and the disclosure of certain contingent liabilities.

Internal audit

The Group's internal audit function is currently outsourced to PwC. The committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of management to its recommendations. The scope of PwC's work focused on key financial controls and non-financial reviews covering areas of perceived higher business risk. Results and management actions arising from reviews undertaken by PwC in the current year were also discussed in detail at each of the committee's meetings.

External auditor independence and effectiveness

KPMG has acted as the Group's external auditor for a period of six years. The committee considers the reappointment of the external auditor, including the rotation of the senior statutory auditor, annually. This also includes an assessment of the external auditor's independence and an assessment of the performance in the previous year, taking into account detailed feedback from directors and senior management across the Group.

The committee also assesses the effectiveness, independence and objectivity of the external auditor by, amongst other things:

- considering all key external auditor plans and reports;
- having regular engagement with the external auditor during committee meetings and ad hoc meetings (when required), including meetings without any member of management being present;
- the chairman of the committee having discussions with David Morritt, the senior statutory auditor, ahead of each committee meeting; and
- considering the external audit scope, the materiality threshold and the level of audit and non-audit fees.

Following this assessment of the external audit process, the committee agreed that the audit process, independence and quality of the external audit were satisfactory. The committee will continue to assess the performance of the external auditor to ensure that they are satisfied with the quality of services provided.

Reappointment of external auditor

The statutory audit services order ('the Order') requires rotation of audit firms every ten years unless there is a tender, in which case the audit firm can remain as auditor for up to 20 years.

As previously reported, KPMG were selected as the Group's auditor for the year ended 31 March 2016, following a competitive tender process, and were appointed at the AGM on 2 September 2015. The external auditor is required to rotate the senior statutory auditor every five years. The senior statutory auditor responsible for the Group audit for 2021 is David Morritt, whose appointment in this role commenced with the audit for the financial year ended 31 March 2019.

The committee has recommended to the board that a resolution proposing the appointment of KPMG as external auditor be put to the shareholders at the forthcoming AGM.

Non-audit services

The Group's policy on the engagement of the external auditor for non-audit related services is designed to ensure that the provision of such services does not impair the external auditor's independence or objectivity. Under no circumstances will any assignment be given to the external auditor when the result would be that:

- as part of the statutory audit, it is required to report directly on its own non-audit work;
- it makes management decisions on behalf of the Group; or
- it acts as advocate for the Group.

This policy is compliant with the Code and with the FRC's revised Guidance on Audit Committees. It includes restrictions on the scope of permissible non-audit work and a cap on fees for permissible non-audit work (which may not exceed 70 per cent of the average audit fees paid in the last three consecutive years). The policy requires a competitive tender for all work with a fee over £30,000.

For work that is permitted under the policy, authority is delegated to the Group finance director to approve up to a limit of £50,000 for each assignment and there is a cumulative annual total of less than 50 per cent of that year's audit fee. Prior approval is required by the committee for any non-audit assignments over £50,000 or where the 50 per cent audit fee threshold is exceeded. No non-audit services provided by KPMG during the year ended 31 March 2021 required the approval of the committee.

Details of the auditor's fees, including non-audit fees (which comply with the Group's policy on the provision of non-audit services), are shown in note 4 to the consolidated financial statements. The total non-audit fees for 2021 represent 10 per cent of the total KPMG audit fee. Those non-audit services undertaken by the auditor were purchased from the auditor because of its existing knowledge of the Group's business which meant it could undertake them more effectively.

Tony Osbaldiston
Chairman of the audit committee

16 June 2021

NOMINATIONS COMMITTEE REPORT

THE COMMITTEE ENSURES THE CONTINUED EFFECTIVENESS OF THE BOARD THROUGH APPROPRIATE SUCCESSION PLANNING AND SUPPORTS THE DEVELOPMENT OF A DIVERSE PIPELINE

“Increasing the diversity of the board and effective succession planning remain key areas of focus for the nominations committee.”

KEVIN WHITEMAN
CHAIRMAN OF THE
NOMINATIONS COMMITTEE*

Role

The primary function of the committee is to deal with key appointments to the board, and related employment matters. The responsibility and the objectives of the committee principally fall into the following areas:

- To review the structure, size and composition of the board.
- To make recommendations to the board for any changes considered necessary.
- To approve the description of the role and capabilities required for a particular appointment.
- To ensure, having due regard for the benefits of diversity on the board, including gender, and on the skills matrix of the board, that suitable candidates are identified and are recommended for appointment to the board.

The committee's terms of reference were updated in April 2021 and are available on the Group's website (www.severfield.com) and on request from the Company secretary.

Board effectiveness

Following John Dodds's retirement in September 2020, I succeeded him as chairman of the nominations committee. Prior to John's retirement, the committee, chaired by Alun Griffiths for these purposes, undertook a comprehensive process to identify John's replacement as non-executive chairman of the Group. This resulted in my appointment to the role and I am delighted to be chosen to lead the board during the next phase of the Group's development.

The committee undertook a process for identifying my replacement as senior independent director and selected Alun Griffiths to fulfil this role from 1 October 2020. An internal candidate was chosen only after careful consideration of other alternatives (including external candidates identified last year) and after the committee had undertaken a series of interviews with Alun and other members of the board, to satisfy themselves that he was the right choice.

In June 2021, Rosie Toogood was appointed as a new non-executive director following a recruitment process involving Korn Ferry. The committee outlined its recruitment criteria to Korn Ferry, taking into account the board's existing skills set and seeking to improve where appropriate its diversity, and a suitable shortlist was identified. After meeting the existing directors, Rosie was then recommended and duly appointed by the board.

The board will now consist of nine directors, with an average tenure of six years. We consider each of our non-executive directors on the board to be independent. Korn Ferry has supported the board in previous selection processes for new board members but has no other connection with the Company.

Diversity

We truly value diversity and a culture of inclusion at all levels within the Group. Our formally adopted equal opportunities and diversity policy sets out the key actions that will be taken to ensure we have a more diverse workforce throughout the Group. We consider diversity to include diversity of background, race, disability,

* Alun Griffiths was chairman of one meeting which was held to consider and recommend to the board the appointment of Kevin Whiteman as a new Chairman and which Kevin Whiteman did not attend due to a conflict of interest.

gender, sexual orientation, beliefs and age and encompasses culture, personality and work-style.

We support the principle of seeking to increase the number of women on FTSE boards, and to improve women's representation in leadership positions. The Group, however, does not believe in the concept of gender quotas, our preferred approach being directed at the selection of the right talent, experience and skill.

As at 31 March 2021, the board had one female director (13 per cent). After 16 June 2021, it will have two female directors (22 per cent). Female representation on our executive committee is two (17 per cent) and of those reporting directly to members of the executive committee, female representation is much higher at 63 per cent with nearly all senior finance and HR roles being held by women.

Succession planning

The committee ensures the continued effectiveness of the board through appropriate succession planning and ensures that the Company has in place a succession planning programme designed to identify and develop future senior leaders and to achieve diversity. Each year the committee meets to review succession plans for the board and for senior management and takes into account the issues arising out of the evaluation of the board's effectiveness and its commitment to diversity.

Evaluation

The committee asked Alun Griffiths, the senior independent director, to perform an internal evaluation using the process described on page 107. The results of the evaluation were positive. The key points arising from the evaluation were documented and discussed with the chairman and the board and taken into account in the process for recruitment of a new non-executive director.

Kevin Whiteman
Chairman of the nominations committee

16 June 2021

Number of meetings

3

Members

Kevin Whiteman (chairman since 3 September 2020)*

Tony Osbaldiston

Alun Griffiths

Louise Hardy

John Dodds (until 3 September 2020)

2021 key achievements

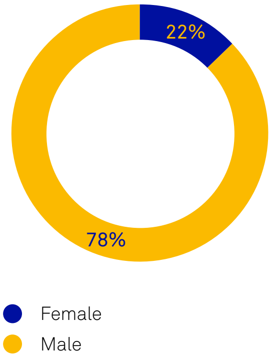
- Recommending the appointment of Kevin Whiteman as the new chairman.
- Recommending the appointment of Alun Griffiths as the new senior independent director.
- Undertaking and considering the results of the board evaluation.
- Establishing the process for the appointment of a new non-executive director, taking into account succession planning and diversity.

2022 areas of focus

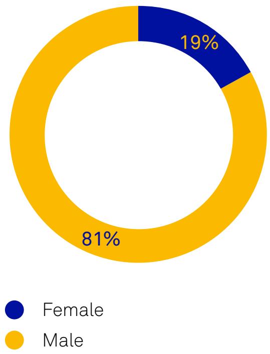
- Recommending the appointment of Rosie Toogood as a new non-executive director.
- Reviewing and re-establishing the Group's succession plan and diversity policy.
- Reconsidering the effectiveness of an external board evaluation.

* Alun Griffiths was chairman of one meeting which was held to consider and recommend to the board the appointment of Kevin Whiteman as a new chairman and which Kevin Whiteman did not attend due to a conflict of interest.

Gender diversity on the board*



Gender diversity in senior management**



* After appointment of Rosie Toogood.
** Senior management comprises the board and the executive committee.

DIRECTORS' REPORT

MARK SANDERSON
COMPANY SECRETARY

THE DIRECTORS PRESENT THEIR REPORT TOGETHER WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Overview

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 20 to 87, as the board considers them to be of strategic importance. Specifically, these relate to the Company's business model and strategy, future business developments, research and development activities and risk (including financial risk) management.

The corporate governance report on pages 96 to 107 is incorporated in this report by reference.

There have been no significant events since the balance sheet date.

Directors

The present membership of the board is set out on pages 90 to 91.

The other significant commitments of the chairman consist of acting as chairman of NG Bailey and non-executive director and remuneration committee chair of Cadent Gas Limited.

The service agreements of the executive directors and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office. Brief details are also included in the directors' remuneration report on page 128.

Appointment and replacement of directors

In accordance with the Company's articles, directors shall be no fewer than two and no more than 12 in number. Subject to applicable law, a director may be appointed by an ordinary resolution of shareholders in general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting, or following retirement by rotation if the director chooses to seek re-election at a general meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM. A director may be removed by the Company as provided for by applicable law, in certain circumstances set out in the Company's articles of association (for example bankruptcy or resignation), or by a special resolution of the Company. We have decided this year to continue to adopt voluntarily the practice that all directors stand for re-election on an annual basis, in line with the recommendations of the Code.

Powers of the directors

The business of the Company is managed by the board, who may exercise all the powers of the Company subject to the provisions of the Company's articles of association, the Companies Act 2006 ('the Act') and any ordinary resolution of the Company.

Directors' indemnities

The articles entitle the directors of the Company to be indemnified, to the extent permitted by the Act and any other applicable legislation, out of the assets of the Company in the event that they suffer any loss or incur any liability in connection with the execution of their duties as directors.

In addition, and in common with many other companies, the Company had during the year, and continues to have in place, directors' and officers' insurance in favour of its directors and other officers in respect of certain losses or liabilities to which they may be exposed due to their office.

Significant shareholdings

As at 1 June 2021, the Group 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:

Name	Ordinary 2.5p share	%
1. M&G Investment Management	33,533,934	10.88
2. JO Hambro Capital Management	29,773,575	9.66
3. Chelverton Asset Management	24,013,305	7.79
4. Unicorn Asset Management	21,500,000	6.98
5. Threadneedle Asset Management	20,759,121	6.73
6. Legal & General Investment Management	16,513,289	5.36
7. Invesco (including Perpetual & Trimark)	15,999,666	5.19

Share capital

The Company has a single class of share capital which is divided into ordinary shares of 2.5p each. No other securities have been issued by the Company. At 31 March 2021, there were 308,221,462 ordinary shares in issue and fully paid. Further details relating to share capital, including movements during the year, are set out in note 24 to the financial statements. During the period, shares in the Company were issued to satisfy awards under the Company's share incentive schemes. Further details regarding employee share-based payment schemes are set out in note 23. No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees.

Voting rights and restrictions on transfer of shares

All of the issued and outstanding ordinary shares of the Company have equal voting rights, with one vote per share. There are no special control rights attaching to them save that the control rights of any ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various employee share plans. In relation to the EBT and any unallocated Company shares held in it, the power to vote or not vote is at the absolute discretion of the trustee. The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or on voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company's ordinary shares, are set out in the articles and in the explanatory notes that accompany the Notice of the 2021 AGM.

These documents are available on the Group's website at www.severfield.com.

Powers for the Company to buy back its shares and to issue its shares

At the Company's annual general meeting ('AGM') held on 3 September 2020, shareholders authorised the Company to make market purchases of ordinary shares representing up to 10 per cent of its issued share capital at that time and to allot shares within certain limits approved by shareholders. These authorities will expire at the 2021 AGM (see below) and a renewal will be sought. The Company did not purchase any of its ordinary shares during the year.

The Directors were granted authority at the previous annual general meeting on 3 September 2020, to allot shares in the Company: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the 2021 AGM (or, if earlier, until the close of business on 30 September 2021).

During the period, the directors did not use their power to issue shares under the authorities but did issue shares to satisfy options and awards under the Company's share incentive schemes.

The directors were also granted authority at the previous annual general meeting on 3 September 2020, under two separate resolutions, to disapply pre-emption rights. These resolutions, which followed the Pre-emption Group's Statement of Principles (March 2015) on disapplying pre-emption rights applicable at that time, sought the authority to disapply pre-emption rights over 10 per cent of the Company's issued ordinary share capital. These authorities apply until the end of the 2021 AGM (or, if earlier, until the close of business on 30 September 2021). During the period, the directors did not use these powers.

Dividends

The directors declared an interim dividend for the six months ended 30 September 2020 of 1.1p per ordinary share (2020:1.1p).

Change of control

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 expire in October 2023 and can be terminated upon a change of control of the Group.

DIRECTORS' REPORT

The Company's share plans contain provisions that take effect in such an event but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

Amendment of articles of association

Any amendments to the articles may be made in accordance with the provisions of the Act by way of special resolution.

Political contributions

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 at least 12 months from the approval of the financial statements. For this reason, the directors continue to adopt the 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 57.

Anti-corruption and bribery matters

The Group updated its anti-bribery policy during the year and prohibits all forms of bribery, both in giving and receiving, wherever it operates. This includes its own employees and any agent or business partner acting on its behalf. No concerns have arisen in relation to such matters during the year and the Group does not regard corruption or bribery as a principal risk. Part of our policy is to undertake due diligence on the risks associated with operating in any high-risk locations.

Additional disclosures

Additional information that is relevant to this report, and which is incorporated by reference into this report, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R, can be located as follows:

- Employees, employee involvement and engagement – pages 68 to 70
- Respect for human rights – page 74
- Social matters – page 74
- Equal opportunities (including for the disabled) – page 74
- Environmental matters – pages 64 to 67
- Greenhouse gas emissions – page 66
- Long-term incentive plans – page 130 of the directors' remuneration report
- Statement of directors' interests – page 134 of the directors' remuneration report
- Financial instruments – note 22 to the Group financial statements
- Credit, market, foreign currency and liquidity risks – note 22 to the Group financial statements
- Related party disclosures – note 31 to the Group financial statements

Disclosure of information to the external auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

External auditor

KPMG LLP acted as the auditor for the Company for the year ended 31 March 2021. KPMG LLP has expressed its willingness to continue in office as external auditor and a resolution to appoint it will be proposed at the forthcoming AGM.

Annual general meeting

The notice concerning the AGM on Wednesday 1 September 2021, 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.

The directors' report from pages 114 to 116 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary

16 June 2021

DIRECTORS' REMUNERATION REPORT

THE COMMITTEE SEEKS TO APPLY THE REMUNERATION POLICY FAIRLY AND EFFECTIVELY TO ALIGN THE INTERESTS OF MANAGEMENT WITH THOSE OF OTHER STAKEHOLDERS AND TO REWARD MANAGEMENT FOR DELIVERY OF STRETCHING BUSINESS TARGETS

Number of meetings

6

Members and committee attendance

Alun Griffiths (chairman)	6/6
Kevin Whiteman	6/6
Tony Osbaldiston	6/6
Louise Hardy	6/6
John Dodds	4/4

2021 key considerations

Setting and reviewing directors' remuneration and benefits, including the basic salary increases across the Group.

Assessed performance against the bonus targets and the PSP targets for the year ended 31 March 2021.

Reviewed and adapted remuneration arrangements in the light of the economic impact of the COVID-19 pandemic on the Group and on shareholder value in particular:

- deferred consideration of the 2020 bonus and pay review for the majority of the executive directors until October 2020 after the half year to allow time for the economic impact to be assessed; and
- deferred grant of 2021 PSP awards and determination of performance targets until December 2020.

Appointed new remuneration advisers (Deloitte).

Accelerated the pension alignment timetable.

Overview

The committee has sought to apply discretion appropriately in what has been an unprecedented year to recognise fairly the achievements of the management team in delivering solid results in a very challenging environment. More broadly, we believe that the remuneration policy continues to provide strong alignment with the interests of our shareholders and other stakeholders in incentivising management to meet demanding short-term targets and to deliver sustainable long-term value creation, whilst ensuring that high safety standards are achieved.

Dear shareholder

As chairman of the remuneration committee, I am pleased to present our directors' remuneration report (the 'report') for the year ended 31 March 2021.

The report is split into the following two sections:

- Part 1, the remuneration policy report, which sets out the remuneration policy for the executive and non-executive directors which was approved at our 2020 AGM, with 94.71 per cent of votes cast in favour; and
- Part 2, the annual report on remuneration, which discloses how the remuneration policy was implemented for the year ended 31 March 2021 and how it will be implemented for the year ending 31 March 2022. The annual report on remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 1 September 2021.

2021 has been a very challenging financial year for the Company and all its stakeholders. The COVID-19 pandemic plus continued Brexit uncertainty made it impossible to set meaningful annual bonus targets for the first half-year and required a reappraisal of the Company's growth trajectory for the short to medium term as the economy recovered from the worst recession for 75 years.

As set out below, the committee approached this challenge by splitting the financial element of the annual bonus into two: treating the first half-year on an exceptional basis, setting a range of financial and non-financial objectives related to the handling of the crisis and recovery of the business with an expectation that it would be possible at the half-year to set meaningful profit targets for the year as a whole.

Targets for the 2020 Performance Share Plan were set at a level which recognised the medium-term impact on the Company's growth trajectory, but which were appropriately stretching in incentivising the management team to return towards previous projections for growth.

Finally, we took note of the strengthened guidance from the Investment Association and others regarding pension alignment and will be bringing forward the date by which time executive pensions will be aligned with those available to the wider workforce to 31 December 2022.

Overall, the committee considers that the policy operated as intended during the year and continues to support our business strategy and provides an appropriate link between performance and reward. In determining the policy, we have taken careful note of the guidance issued by shareholders and by the investment community as a whole. Where appropriate, remuneration policy for directors is in line with remuneration of the Group as a whole.

Impact of the COVID-19 pandemic on remuneration

As noted in last year's directors' remuneration report, the committee deferred certain decisions in relation to executive remuneration so as to allow time for the economic impact of the COVID-19 pandemic on the Group to be assessed. An update on such decisions is provided below.

- **Annual bonus outcome for 2020:** The executive directors earned bonuses of between 61 per cent and 70 per cent of maximum opportunity in respect of the 2020 financial year. In October 2020, following the half year for the 2021 financial year, the committee determined that the payment of bonus for the 2020 financial year should be made as the company was in a strong financial position, had paid a final dividend for the 2020 financial year and did not seek any government aid via furlough payments under the Coronavirus Job Retention Scheme ('CJRS').
- **Base salaries:** Adam Semple's salary was increased to £250,000 in July 2020 for reasons explained in last year's Director's Report, but the review of the salaries of all other directors was deferred until October 2020. Increases of 2 per cent of salary were awarded in line with those of the wider workforce and backdated to 1 July 2020.
- **Grant of PSP awards:** In line with the guidance published by the Investment Association, the committee deferred the grant of PSP awards until December 2020 to ensure that the earnings per share ('EPS') performance targets would be consistent with the board strategy review completed in December 2020 and in line with updated market expectations. Awards were granted equal to 100 per cent of salary for the chief executive officer and the chief operating officer and 75 per cent of salary for other executive directors. All awards were granted below the maximum opportunity of 150 per cent of salary permitted by the remuneration policy. The targets set are intended to incentivise management to maintain forward momentum and will require the Group to deliver EPS which equates to a PBT range of £25.5m to £32.5m for the 2023 financial year. The committee considers that this represents a vesting range which is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

Update on pension alignment

As part of last year's remuneration policy update, we confirmed that pension allowance for existing executive directors would be reduced to 15 per cent of salary over the next three years, with full alignment to the level available to the entire UK workforce being achieved by the end of the next policy period. This year, following the Investment Association's updated guidance, we have decided to accelerate this timetable by committing to full alignment by 31 December 2022.

Performance and reward 2021

The Group has performed well despite challenging market conditions, significantly influenced by the COVID-19 pandemic and continued Brexit uncertainty, and has continued to make progress in meeting its strategic objectives. This was achieved through sustained focus on operational improvements, supported by continued investment in people, processes and technology. In addition, the acquisition of DAM Structures has given us additional market share in a strategically significant market.

Annual bonus outcome

As in previous years, executive directors were granted an annual bonus opportunity equal to 100 per cent of salary in line with the remuneration policy. 80 per cent of the award was based on financial performance and 20 per cent based on safety performance.

Profit-based targets – 80 per cent

In the first half of the year, when the uncertainty associated with the COVID-19 pandemic was at its greatest, profit forecasts for the full financial year were unable to be made with any reliability. As such, the committee split the financial element of the bonus into two:

- 50 per cent based on the committee's assessment of the Group's response to, and recovery from, COVID-19 during the first half of the financial year with focus on profitability, liquidity, staff welfare and the smooth running of operations, in particular continuing to meet client needs at a very demanding time. The committee determined that 75 per cent of this element should be paid, taking into account that operations continued to run safely and effectively through the pandemic, the Group worked closely with clients in making changes to working practices to allow sites to remain open, the Group's financial position remained strong, no claims for government support were made (including via employee-related support schemes) and half-year financial performance was positive. In making this determination, the committee considered that the interests of employees and shareholders were adequately represented during this period, with employees afforded a COVID-19 safe working environment, receiving a bonus (for the 2020 financial year) and an average 2 per cent salary increase and with shareholders continuing to be paid ordinary dividends.
- 50 per cent based on the achievement of Group PBT targets for the whole financial year. This element would pay out at 50 per cent for achievement of Group PBT for the 2021 financial year of £21m, 75 per cent at £23m and 100 per cent at £25m. Group PBT of £24.3m was achieved and 75 per cent of this element paid out. Derek Randall, as managing director of the Indian joint venture ('JSSL'), has this profit-based

DIRECTORS' REMUNERATION REPORT

component of his bonus split 50:50 between Group PBT and PBT for JSSL, also resulting in a 75 per cent payout.

Safety-based targets – 20 per cent

For all directors (apart from Derek Randall), 20 per cent of the bonus is payable on achieving a Group incident frequency rate ('IFR') score of 1.92. For Derek Randall, 20 per cent of the bonus is payable on achieving a JSSL accident frequency rate ('AFR') score of 0.1. The safety targets for all directors were achieved, resulting in this element of the bonus being paid out in full.

Based on the above, an annual bonus payout of 80 per cent of the maximum opportunity has been earned for all directors. The committee considers this to be a fair and equitable outcome considering wider Group performance and the experience of shareholders, employees and clients. It was notable that few employees were placed on furlough (and no government support was claimed), there was no COVID-19 related restructuring, employees received a bonus for 2020 and an average 2 per cent salary increase, a final dividend and an interim dividend were paid and by the end of the year the share price had recovered to c.80p from a low of c.50p in August 2020. In addition, the Company acquired DAM Structures, broadening its strategic outreach, achieved a strong year-end financial position and has emerged from the COVID-19 crisis well positioned to respond to the recovery of the market generally.

In line with the remuneration policy, 50 per cent of the bonus will be paid in shares deferred for three years.

PSP vesting

The 2018 PSP awards capable of vesting in June 2021 will lapse in full as the threshold EPS target (which equated to PBT of £29.5m) for the financial year 2021 was not met.

Implementation of policy for 2022

Base salaries and fees

Salaries for the directors will be reviewed and be effective from 1 July 2021 with increases, as a percentage of salary, being limited to those of the wider workforce.

After no change in the fees paid to non-executive directors since 2014, the level of fees was benchmarked this year and determined to have fallen substantially below market compared to the Group's peer group. As a result, the board agreed to increase the base fee by 12.5 per cent (from £40,000 to £45,000), the additional fee for extra roles by 50 per cent (from £5,000 to £7,500) and the chairman's fee by 12.5 per cent (from £125,000 to £140.000). This then placed their remuneration at a level between the lower quartile and the median compared to their peer group of other FTSE SmallCap companies.

Annual bonus

The maximum annual bonus opportunity is 100 per cent of salary. 80 per cent of the award is based on PBT performance and 20 per cent based on safety performance. The PBT performance targets reflect the levels of growth forecast in the board's strategy review in December 2020 in the light of the impact of the COVID-19 pandemic on the forward momentum of the Group. The committee considered the balance of financial and non-financial measures, as well as the appropriateness of each measure, and considers that these remain appropriate for the year ahead.

PSP

Awards of 100 per cent of salary will be made for the chief executive officer and the chief operating officer and 75 per cent for other executive directors. The performance targets are intended to incentivise management to maintain momentum and will require the Group to deliver EPS in 2024 which equates to a PBT range of £30.0m to £40.0m. This represents an increase in the threshold target of £4.5m (18 per cent) and in the maximum target of £7.5m (23 per cent) compared to the targets set for 2023 and represents a vesting range which the committee feels is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

Conclusion

The committee continues to seek to strengthen shareholder alignment and ensure that pay remains firmly linked to performance whilst ensuring that the bonus and performance share plans provide a strong incentive for management to deliver superior performance over the short and longer term. At the same time, we are mindful that remuneration decisions should be considered in the context of the impact of the COVID-19 pandemic on the Group's operations and the experience of shareholders and employees. We strongly believe that the decisions made during the year were appropriate in this regard.

I hope you find this report to be clear and simple, providing the rationale for our decisions that is helpful in understanding our remuneration policy and practices.

I look forward to answering any questions shareholders might have, and your continued support.

Alun Griffiths
Chairman of the remuneration committee

16 June 2021[1]

[1] This report complies with the provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the UK Corporate Governance Code 2018 and the UKLA Listing Rules and the Disclosure and Transparency Rules. The remuneration committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the Investment Association and the NAPF.

Part 1 – Remuneration Policy

The remuneration policy was approved at the AGM in 2020. Provided for information only are the details of the policy that were referenced in the committee's activities over the past reporting year which includes the remuneration policy table, the recruitment remuneration arrangements, the executive director service contracts and terms and conditions for non-executive directors.

The full policy report, as approved by shareholders, can be found from page 121 onwards of the 2020 annual report. It is intended this policy will remain in place until the 2023 AGM. The Company's remuneration policy supports the business strategy by ensuring that the overall remuneration package is set at a competitive level whilst ensuring that additional reward is only paid for high performance over a sustained period.

The key principles of the policy are:

- Clarity: maintain transparency of our competitive total remuneration structure that is driven by our business strategy and model, focuses on sustained long-term value creation whilst ensuring that high safety standards are achieved and is aligned with the interests of shareholders;
- Predictability: to ensure that targets set each year result in stretching ambitions and that the scale of the reward is proportionate;
- Support the Group's business strategy: a reward package that balances short and long-term performance, rewarding Group and personal performance;
- Simplicity: ensure the remuneration structure avoids unnecessary complexity;
- Risk is appropriately managed. The remuneration of executive directors provides an appropriate balance between fixed and performance-related pay elements: restraint on fixed pay, with a substantial proportion of total remuneration based on variable pay linked to performance;
- Alignment: the remuneration principles encourage behaviour that the committee expects; and
- Proportionality: the link between individual awards, the delivery of strategy and the long-term performance of the Group is clear.

Remuneration policy table for executive directors

The following table sets out each element of the remuneration policy for the executive directors, explaining how each element operates and links to the business strategy.

Base salaries	
Purpose and link to strategy	
To provide the core reward for the role recognising knowledge, skills and experience, in addition to the size and scope of the role. Sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
Base salaries are normally reviewed annually by the committee, with changes typically effective from 1 July. Base salaries are pensionable. Our review takes into account levels of increase across the broader workforce, changes in responsibility, and a periodic remuneration review of comparable companies.	
Maximum opportunity	**Performance conditions**
There is no prescribed maximum base salary or salary increase. Current salaries are disclosed in the annual report on remuneration. Salary increases are awarded at the discretion of the committee. Salary increases (in percentage of salary terms) will ordinarily be considered in relation to those applied to the broader employee population. The committee retains discretion to award a lower or a higher increase to recognise, for example, significant changes in the scope and/or responsibilities of the role, a material change in the size and scale of the Group and/or to take account of relevant market movements. Where an executive director's salary is set below market levels at appointment, a series of increases may be given (in addition to the factors listed above) in order to achieve the desired salary positioning, subject to satisfactory individual performance.	None, although the committee considers individual salaries each year having due regard to the factors noted in operation of the policy. No recovery provisions apply to salary.

DIRECTORS' REMUNERATION REPORT

Benefits	
Purpose and link to strategy	
Cost-effective benefits, sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
The Group currently provides the following employee benefits: Life assurance at four times salary. Medical insurance for self with option to purchase for family. Company car and fuel allowance. Relocation expenses may be offered if considered appropriate and reasonable by the committee. In circumstances where an executive is deployed on an international assignment, their arrangements will be managed in a way that is consistent with good practice for international organisations. Additional allowances may also be paid, e.g. to cover any increase in cost of living, tax equalisation and/or additional accommodation costs. Any reasonable business-related expenses can be reimbursed (including the tax thereon if determined to be a taxable benefit). The committee may wish to offer executive directors other employee benefits on broadly similar terms as those offered to other employees from time to time, provided within the maximum opportunity limit, including participation in any all-employee share plans operated by the Group, in line with the prevailing HMRC guidelines (where relevant).	
Maximum opportunity	**Performance conditions**
The value of insured benefits can vary from year to year based on the costs from third party providers. The committee reviews the cost of the benefits provision on a regular basis to ensure that it remains appropriate. The total value of benefits (excluding relocation and international assignment allowances) will not exceed more than 15 per cent of salary in any year. The maximum level of participation for all-employee share plans, if relevant, is subject to the limits imposed by HMRC from time to time (or a lower cap set by the Group).	No performance conditions or recovery provisions apply to benefits.

Pension	
Purpose and link to strategy	
Cost-effective long-term retirement benefits, sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
Group contribution to defined contribution scheme (own or the Group's), a cash supplement or a combination of both up to the maximum value. Director has no obligation to match Group contributions.	
Maximum opportunity	**Performance conditions**
For new executive director appointments after the 2020 AGM, the Group pension contribution/allowance will be aligned to that available to the majority of the UK monthly paid workforce, from time to time. The current pension contribution being 7 per cent of base salary. For incumbent directors, the pension contribution levels will be aligned with the level available to the entire UK workforce by 31 December 2022 as follows:	No recovery provisions apply to pension benefits.

	Current	1 April 2021	1 April 2022	1 Jan 2023
CEO	20%	19%	17%	UK workforce
Others	18%	17%	16%	level

For international assignments, the Group may be required to make additional payments to comply with local statutory requirements.

DIRECTORS' REMUNERATION REPORT

Annual bonus	
Purpose and link to strategy	
To focus attention on achieving short-term corporate objectives, incentivise outperformance of targets and provide a deferred element to reinforce the impact of long-term performance.	
Operation	
Annual awards based on targets set by the committee at the beginning of each financial year. The extent to which the performance measures have been achieved is determined by the committee after the end of the performance period. The level of bonus for each measure is determined by reference to the actual performance relative to that measure's performance targets, on a pro rata basis. All bonus payments are at the ultimate discretion of the committee and the committee retains an overriding ability to ensure that overall bonus payments reflect its view of corporate performance during the year when determining the final bonus amount to be awarded. Any annual bonus award is made 50 per cent in cash and 50 per cent in shares, deferred for three years under the rules of the Group's deferred share bonus plan ('DSBP'). The plan incorporates a malus and clawback mechanism for instances of financial misstatement, error, substantial failures in risk control, serious misconduct or any other exceptional circumstances determined by the remuneration committee, for a period of three years from the bonus payment date. The malus and clawback provisions extend to the cash element of the annual bonus. Dividends may accrue on deferred bonus shares, to the extent they have vested. Any dividend equivalents would normally be delivered in shares.	
Maximum opportunity	**Performance conditions**
Maximum 100 per cent of base salary per annum.	The committee will review the appropriateness of performance measures on an annual basis and consider whether there is a need to rebalance or amend the performance measures, targets and weightings to reflect the business objectives at the time. The committee retains the discretion to set alternate measures, as appropriate. However, the majority of the annual bonus will be subject to financial targets. Currently, the business uses a combination of underlying profit before tax ('PBT') targets and accident frequency rate ('AFR') targets. Performance is measured over one financial year. No more than 50 per cent of the maximum bonus opportunity will be payable for on-target performance. The actual measures and weightings are set out in the annual report on remuneration on page 131.

Performance Share Plan ('PSP') (approved by shareholders in 2017)	
Purpose and link to strategy	
Incentivise and reward for long-term sustainable performance linked to corporate strategy and provide alignment with shareholders' interests.	
Operation	
Discretionary awards of performance shares are normally granted annually. The committee reviews the quantum of awards annually and monitors the continuing suitability of the performance measures. The awards will, in normal circumstances, vest subject to continued service and the achievement of performance conditions over a prescribed period, normally measured over three financial years. A two-year post-vesting holding period requirement, which continues to apply post-employment, applies for shares that vest, net of sales to settle tax or other withholding due on the vesting or exercise of awards. Malus and clawback provisions apply to allow recoupment for a period of three years following the vesting of an award, in the event that the value of a vested award is subsequently found to have been overstated as a result of financial misstatement, error, substantial failures in risk control, serious misconduct or any other exceptional circumstances determined by the remuneration committee. Dividends may accrue on vested awards. Any dividend equivalents accrued will normally be delivered in shares. All awards are subject to the discretions contained in the relevant plan rules.	
Maximum opportunity	**Performance conditions**
Maximum annual award level is 150 per cent of salary.	The committee will determine each year the appropriate award levels and performance conditions based on the corporate strategy at the time. However, a financial measure such as underlying earnings per share ('EPS') will be used for at least half of any award. Currently, the awards are subject to an EPS growth target, the details of which are set out in the annual remuneration report. No more than 25 per cent of an award will vest for performance at the lower threshold of EPS targets, increasing to 100 per cent vesting at maximum on a straight-line basis. The committee retains discretion to override formulaic outcomes in deciding the level of vesting to reflect wider Group performance. Any exercise of discretion will be fully disclosed to shareholders. A two-year post-vesting holding period applies.

DIRECTORS' REMUNERATION REPORT

All-employee share plan	
Purpose and link to strategy	
To foster wider employee share ownership.	
Operation	
The Group currently operates a share incentive plan and a sharesave scheme. Participation in any all-employee share plans operated by the Group is in line with HMRC guidelines. Executive directors are entitled to participate on the same basis as for other eligible employees.	
Maximum opportunity	**Performance conditions**
The Group has discretion under the all-employee share plans to issue awards up to the HMRC approved limits as set from time to time.	No recovery provisions apply to all-employee share awards.

Shareholding requirements	
Purpose and link to strategy	
To strengthen the alignment between the interests of the executive directors and those of shareholders.	
Operation	
In accordance with best practice, shareholding requirements apply during and post-employment. **In-employment shareholding requirement** Executive directors will normally be required to retain a shareholding of at least 200 per cent of their PSP award opportunity. Executive directors are required to retain shares acquired under equity incentive schemes, net of tax, until such time as they have built up the required holding. Deferred bonus shares, vested but unexercised PSP awards, shares subject to a holding period and open market purchase shares, including shares held by a spouse or children under 18, count towards this limit, on a net of tax basis. **Post-employment shareholding requirement** Executive directors will normally be required to retain a shareholding, at the level of the in-employment shareholding or the actual shareholding on cessation, if lower, until the second anniversary of the date they ceased to be an executive director. The post-cessation shareholding requirement will apply to shares acquired (net of tax) under awards granted under this policy. Shares acquired under all-employee share plans or purchased from the executives' own funds would not be included.	
Maximum opportunity	**Performance conditions**
Executive directors are required to build up and maintain an in-employment shareholding of at least 200 per cent of their PSP award opportunity. Executive directors will normally be required to retain a post-employment shareholding at the level of the in-employment shareholding requirement, or the actual shareholding on cessation, if lower, for a period of two years post-employment.	No performance conditions or recovery provisions apply.

Policy of payment for departure from office	
Provision	**Policy**
Salary, pension and benefits	If no breach of service agreement – termination payment based on the value of base salary that would have accrued during the contractual notice period* taking into account mitigation, when appropriate, as circumstances dictate.
Annual bonus	Discretionary payment based on the circumstances of the termination and after assessing performance conditions and only for the service period worked. DSBP will be forfeited for dismissal for misconduct, fraud and performance issues and where executive director leaves for alternative employment at a competitor.
PSP	Outstanding awards will lapse unless good leaver (death, disability, retirement, the sale of the business or company that employs the individual or for any reason at the discretion of the committee (which may take into account the circumstances of an individual's departure)). A good leaver's unvested awards will vest on the normal vesting date subject to the achievement of any relevant performance condition (other than in the case of death when vesting will be immediate), with a pro rata reduction to reflect the proportion of the vesting period served.

* The committee will have the authority to settle any legal claims made against the Company, for example for unfair dismissal, that may arise on termination.

Notes to the policy table

Choice of performance conditions and metrics

Our role as the remuneration committee includes the establishment of performance goals through long-term incentive plans which are challenging but achievable through superior performance, thereby incentivising and rewarding success.

The long-term incentive plan currently incorporates an EPS performance measure, which is a key financial metric that is aligned with shareholder interests. The committee has considered and taken advice on alternative performance measures, such as total shareholder return ('TSR'), to substitute for (all or part of) the use of the EPS range used in the past. Lack of a suitable peer group of similar listed companies made this approach impracticable and, to date, we have found no better benchmark.

The remuneration committee has retained flexibility on the measures which will be used for future award cycles to ensure that the measures are fully aligned with the strategy prevailing at the time the awards are granted. Notwithstanding this, the remuneration committee would seek to consult with major shareholders in advance of any material change to the choice or weighting of the PSP performance measures.

No performance targets are set for any share incentive plan or sharesave plan awards since these form part of all-employee arrangements that are purposefully designed to encourage employees across the Group to purchase shares in the Company.

Details of all the outstanding share awards granted to existing executive directors are set out in the annual remuneration report.

The discretions retained by the committee in operating the annual bonus and the PSP

The committee will operate the annual bonus (including the deferred share element) and the PSP according to their respective rules and in accordance with the Listing Rules where relevant.

The committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans.

In relation to both the Group's PSP and annual bonus plan, the remuneration committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plans. These include, for example, selecting the participants, the timing and quantum of awards and setting performance criteria each year, determining 'good leaver' status, determining the extent of vesting based on the assessment of performance, form of payment, discretion to retrospectively amend performance targets in exceptional circumstances (providing the new targets are no less challenging than originally envisaged) and in respect of share awards, to adjust the number of shares subject to an award in the event of a variation in the share capital of the Company.

Any use of the above discretions would, where relevant, be explained in the annual report on remuneration and may, as appropriate, be the subject of consultation with the Group's major shareholders.

DIRECTORS' REMUNERATION REPORT

Executive directors' service agreements

All executive directors' service agreements run on a rolling basis. Notice periods of 12 months are required to be given by all parties. Payment to be made in lieu of notice on termination is equal to 12 months' salary or to any proportion of unexpired notice period.

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 at the annual general meeting.

How are the non-executive directors paid?

The chairman and non-executive directors receive an annual fee (paid in monthly instalments by payroll). The fee for the chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the board, on the recommendations of the chairman and the chief executive officer.

Element	Purpose and link to strategy	Operation (including maximum levels)
Fees	To attract and retain a high-calibre chairman and non-executive directors by offering market competitive fee levels.	• Current fee levels are disclosed in the annual report on remuneration. • The chairman and the other non-executive directors receive a basic board fee, with supplementary fees payable for additional board responsibilities. • Non-executive directors will be reimbursed for any normal business-related expenses and any taxable benefit implications that may result. • The non-executive directors do not participate in any of the Group's incentive arrangements or pension scheme. • The fee levels are normally reviewed on a periodic basis, and may be increased, taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Fee increases may be greater than those of the wider workforce in a particular year, reflecting the periodic nature of increases and that they take into account changes in responsibility and/or time commitments. • Additional fees may be payable to reflect exceptional time commitments. • No benefits or other remuneration are provided to non-executive directors.

What are the terms of appointment of the non-executive directors?

The chairman's and non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is one month in all cases. The non-executive directors are not entitled to any compensation on loss of office. Appointments are subject to annual re-election by shareholders at the AGM.

Part 2 – Annual remuneration report

In this section, we report on the implementation of our policies in the year ended 31 March 2021 as well as how the policy will be implemented for 2022. The regulations require the auditor to report to the Group's shareholders on the auditable part of the directors' remuneration report and to state whether, in its opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The relevant sections subject to audit have been highlighted in the annual report on remuneration.

Implementation of policy for 2021

Remuneration committee

Membership, meetings and attendance

The Group has an established remuneration committee which is constituted in accordance with the recommendations of the UK Corporate Governance Code.

The members of the remuneration committee who served during the year are shown below together with their attendance at remuneration committee meetings:

	Number of meetings attended
Alun Griffiths (chairman)	6/6
John Dodds (until 3 September 2020)	4/4
Louise Hardy	6/6
Kevin Whiteman	6/6
Tony Osbaldiston	6/6

The Group considers all members of the committee to be independent. Executive directors may attend remuneration committee meetings at the invitation of the committee chairman, but do not take part in any discussion about their own remuneration. The Company secretary acts as the secretary to the remuneration committee.

The terms of reference for the remuneration committee are available on the Company's website.

Shareholder engagement

The committee engages directly with major shareholders where it considers there to be material changes to the remuneration policy or executive remuneration framework.

Consideration of conditions and pay levels for the workforce

In determining the remuneration of executive directors and remuneration policy for the Group, the committee took account of general market conditions and pay levels for the workforce as a whole. In so doing, the committee reviewed wage growth generally and the proportion of earnings paid as bonus to groups of staff at each level – executive directors, senior staff and all other employees (who receive a profit share bonus and are eligible to participate in an SAYE scheme). The Group recognises a number of trade unions who are consulted regarding wage settlements on a site-by-site basis and seeks employee participation on a range of matters, including safety, but does not formally engage with employees on executive pay.

Advisers to the committee

Wholly independent and objective advice on executive remuneration is received from the committee's external advisers.

Deloitte were appointed in December 2020 following a tender organised by the committee. Deloitte is one of the founding members of the Remuneration Consultants Group and is a signatory to its Code of Conduct. No fees were charged by Deloitte for advice provided to the committee for the year ended 31 March 2021.

Deloitte replaced Alvarez & Marsal, who themselves replaced Aon plc in September 2020. Fees charged by Alveraz & Marsal and Aon plc for advice provided to the committee for the year ended 31 March 2021 amounted to £54,000 (excluding VAT).

DIRECTORS' REMUNERATION REPORT

Directors' earnings for the 2021 financial year (audited)

Remuneration received by the directors

Year ended 31 March 2021

£000	Salary	Fees	Benefits	Pension	Total fixed pay	Bonus	LTIPs	Total variable pay	Total
Executives									
Alan Dunsmore	364	–	19	73	**456**	291	–	**291**	**747**
Ian Cochrane	324	–	16	50	**390**	259	–	**259**	**649**
Derek Randall[1]	267	–	79	50	**396**	213	–	**213**	**609**
Adam Semple	246	–	16	44	**306**	197	–	**197**	**503**
Non-executives									
Kevin Whiteman[2]	–	91	–	–	**91**	–	–	**–**	**91**
Alun Griffiths[3]	–	48	–	–	**48**	–	–	**–**	**48**
Tony Osbaldiston	–	45	–	–	**45**	–	–	**–**	**45**
Louise Hardy	–	40	–	–	**40**	–	–	**–**	**40**
John Dodds (resigned 3 September 2020)	–	54	–	–	**54**	–	–	**–**	**54**
	1,201	**278**	**130**	**217**	**1,826**	**960**	**–**	**960**	**2,786**

Taxable benefits include the provision of company cars, fuel for company cars, car, accommodation and living allowances and private medical insurance. LTIPs reflect those PSP awards expected to lapse based on performance to 31 March 2021.

[1] £22,317 of the cost of living allowance paid to Derek Randall related to FY20 but was wholly paid in FY21.

[2] Kevin Whiteman was appointed as chairman on 3 September 2020.

[3] Alun Griffiths was appointed as senior independent director on 1 October 2020.

Directors' earnings for the 2020 financial year (audited)

Remuneration received by the directors

Year ended 31 March 2020

£000	Salary	Fees	Benefits	Pension	Total fixed pay	Bonus	LTIPs*	Total variable pay	Total
Executives									
Alan Dunsmore	356	–	19	71	**446**	219	215	**434**	**880**
Ian Cochrane	318	–	16	50	**384**	195	190	**385**	**769**
Derek Randall	261	–	–	50	**311**	185	156	**341**	**652**
Adam Semple	231	–	16	42	**289**	143	22	**165**	**454**
Non-executives									
John Dodds	–	125	–	–	**125**	–	–	**–**	**125**
Tony Osbaldiston	–	45	–	–	**45**	–	–	**–**	**45**
Kevin Whiteman	–	45	–	–	**45**	–	–	**–**	**45**
Alun Griffiths	–	45	–	–	**45**	–	–	**–**	**45**
Louise Hardy (appointed 3 September 2019)	–	26	–	–	**26**	–	–	**–**	**26**
	1,166	**286**	**51**	**213**	**1,716**	**742**	**583**	**1,325**	**3,041**

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

* LTIPs reflect those PSP awards vested based on performance to 31 March 2020 and are calculated as actual value of benefit at the actual vesting date (including extra dividend equivalent shares) based on the vesting share price of 72.50p. The awards were granted on 15 June 2017 at a share price of 82.50p and therefore no proportion of the value is attributable to share price growth.

Base salary increases received by the directors

The directors received a 2 per cent salary increase effective from 1 July 2020, which was broadly in line with that received by the UK workforce, with the exception of Adam Semple who received an increase of 6.4 per cent for the reasons explained in last year's directors' remuneration report.

Past directors/loss of office payments (audited)

There have been no payments made to past directors/loss of office during the year.

How pay linked to performance in 2021 (audited)

Bonus

As in previous years, executive directors were granted an annual bonus opportunity equal to 100 per cent of salary in line with the remuneration policy. 80 per cent of the award was based on financial performance and 20 per cent based on safety performance.

The targets and the performance against these targets are set out below:

For all directors (excluding Derek Randall)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus	Payout as % of salary
Response to COVID-19 (H1)	40%		*Discretionary*			75%	30%
Group PBT (H2)*	40%	£21m	£23m	£25m	£24.3m	75%	30%
Group IFR**	20%	above 2.14	below 2.03	below 1.92	1.48	100%	20%
							80%

* For Group PBT, 'threshold' represents 50%, 'on-target' represents 75% and 'maximum' represents 100% of maximum bonus opportunity.

** For Group IFR, 'threshold' represents nil per cent payout, 'on-target' represents 50 per cent payout and 'maximum' represents 100 per cent payout.

Derek Randall (JSSL managing director)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus	Payout as % of salary
Response to COVID-19 (H1)	40%		*Discretionary*			75%	30%
Group PBT (H2)*	20%	£21m	£23m	£25m	£24.3m	75%	15%
JSSL (India) LBT (H2)	20%	(22.0 Cr)	(17.0 Cr)	(7.0 Cr)	(14.8 Cr)	75%	15%
JSSL (India) AFR**	20%	above 0.121	below 0.12	below 0.10	0.03	100%	20%
							80%

* For Group PBT, 'threshold' represents 50%, 'on-target' represents 75% and 'maximum' represents 100% of maximum bonus opportunity.

** For JSSL AFR, 'threshold' represents nil per cent payout, 'on-target' represents 50 per cent payout and 'maximum' represents 100 per cent payout.

DIRECTORS' REMUNERATION REPORT

Profit-based targets – 80 per cent

In the first half of the year, when the uncertainty associated with the COVID-19 pandemic was at its greatest, profit forecasts for the full financial year were unable to be made with any reliability. As such, the committee split the financial element of the bonus into two:

- 50 per cent based on the committee's assessment of the Group's response to, and recovery from, COVID-19 during the first half of the financial year with focus on profitability, liquidity, staff welfare and the smooth running of operations, in particular continuing to meet client needs at a very demanding time. The committee determined that 75 per cent of this element should be paid, taking into account that operations continued to run safely and effectively through the pandemic, the Group worked closely with clients in making changes to working practices to allow sites to remain open, the Group's financial position remained strong, no claims for government support were made (including via employee-related support schemes) and half-year financial performance was positive. In making this determination, the committee considered that the interests of employees and shareholders were adequately represented during this period, with employees afforded a COVID-19 safe working environment, receiving a bonus (for the 2020 financial year) and a normal pay increase and with shareholders continuing to be paid ordinary dividends.
- 50 per cent based on the achievement of Group PBT targets for the whole financial year. This element would pay out at 50 per cent for achievement of Group PBT for the 2021 financial year of £21m, 75 per cent at £23m and 100 per cent at £25m. Group PBT of £24.3m was achieved and 75 per cent of this element paid out. Derek Randall, as managing director of the Indian joint venture ('JSSL'), has this profit-based component of his bonus split 50:50 between Group PBT and PBT for JSSL, also resulting in a 75 per cent pay out.

Safety-based targets – 20 per cent

For all directors (apart from Derek Randall), 20 per cent of the bonus is payable on achieving a Group IFR score of 1.92. For Derek Randall, 20 per cent of the bonus is payable on achieving a JSSL AFR score of 0.1. The safety targets for all directors were achieved, resulting in this element of the bonus being paid out in full.

The executive directors will receive the bonuses set out in the table below, of which 50 per cent will be paid in shares deferred for three years.

Under the rules of the Group's deferred share bonus plan, the participants will receive nil cost options exercisable after three years over a seven-year period which are forfeitable only in certain scenarios in accordance with the remuneration policy as disclosed on page 124.

Alan Dunsmore	£291,021
Ian Cochrane	£259,340
Derek Randall	£213,278
Adam Semple	£197,000

The committee considers this to be a fair and equitable outcome considering wider Group performance and the experience of shareholders and employees, for reasons explained in the chairman's statement on page 94.

PSP awards vesting in 2021

The 2018 PSP awards were capable of vesting in June 2021, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2021. The threshold EPS target required for vesting of 25 per cent of the award was 7.88p which equated to a PBT of £29.5m. The EPS target required for vesting at 100 per cent of the award was 9.75p which equated to a PBT of £36.5m. The actual PBT achieved was £24.3m, which equated to EPS of 6.4p and therefore the awards will lapse in full.

Deferred bonus awards granted in 2021 (audited)

On 5 October 2020 the committee made the following awards under the Group's Deferred Share Bonus Plan to the following executive directors in relation to the 2020 bonus outcome. The awards will vest on 5 October 2023, subject to continued employment.

Name	Type	Number of shares	Face value of shares[1]	Vesting date
Alan Dunsmore	Nil–cost option	194,314	£109,399	5 October 2023
Ian Cochrane	Nil–cost option	173,161	£97,490	5 October 2023
Derek Randall	Nil–cost option	164,474	£92,599	5 October 2023
Adam Semple	Nil–cost option	127,410	£71,732	5 October 2023

[1] Face value calculated using the average mid-market closing share price for 2 October 2020 and 5 October 2020 (56.30p).

PSP awards granted in 2021 (audited)

In line with the guidance published by the Investment Association, the committee deferred the grant of PSP awards until December 2020 to ensure that the EPS performance targets would be consistent with the board strategy review completed in December 2020 and in line with updated market expectations. Awards were granted equal to 100 per cent of salary for the chief executive officer and the chief operating officer and 75 per cent of salary for other executive directors. The targets set are intended to incentivise management to maintain forward momentum, and will require the Group to deliver EPS which equates to a PBT range of £25.5m to £32.5m for the financial year 2023. The committee considers that this represents a vesting range which is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

A summary is set out below:

PSP awards granted to directors in 2021 (audited)

Share awards were made in the year under the PSP scheme for the three-year period expiring on 31 March 2023. Details of the awards made to the executive directors are summarised below.

Name	Type	Number of shares	% of salary	Face value (£)[1]	Performance condition[2]	Performance period	% vesting at threshold
Alan Dunsmore	Nil–cost option	529,809	100%	365,568	EPS	3 financial years ending 31 March 2023	25%
Ian Cochrane	Nil–cost option	472,133	100%	325,772			
Derek Randall	Nil–cost option	291,210	75%	200,935			
Adam Semple	Nil–cost option	271,739	75%	187,500			

[1] Face value calculated based on the pre-grant date share price of 69.00p on 17 December 2020.

[2] Performance conditions are based on EPS targets of 6.57p (minimum performance – 25% vests) to 8.36p (maximum performance – 100% vests) with linear interpolation in between. This represents a PBT range of £25.5m-£32.5m.

The committee retains discretion to adjust the formulaic vesting outcome if it is not considered to be appropriate, taking into account wider Group performance during the performance period. This includes consideration of any 'windfall gains' at the point of vesting. In assessing whether there is any 'windfall gain', the committee will take into account a number of factors, including share price performance over the vesting period, financial performance of the business, and any significant events (e.g. COVID-19) which have impacted the Company's share price or market as a whole.

DIRECTORS' REMUNERATION REPORT

Outstanding share awards at the year-end (audited)

Details of share awards under the PSP to the executive directors which were outstanding at the year-end are shown in the following table:

Director	Year of award	Vesting date*	Performance condition	Awards held at 1 April 2020	Awards granted in year	Awards lapsed in year	Awards vested in year	Awards held at 31 March 2021
Alan Dunsmore	2017	2020	EPS	304,549	–	(8,598)	(295,951)	–
	2018	2021	EPS	414,692	–	–	–	414,692
	2019	2022	EPS	490,196	–	–	–	490,196
	2020	2023	EPS	–	529,809	–	–	529,809
Total				**1,209,437**	**529,809**	**(8,598)**	**(295,951)**	**1,434,697**
Ian Cochrane	2017	2020	EPS	269,888	–	(7,620)	(262,268)	–
	2018	2021	EPS	360,556	–	–	–	360,556
	2019	2022	EPS	436,835	–	–	–	436,835
	2020	2023	EPS	–	472,133	–	–	472,133
Total				**1,067,279**	**472,133**	**(7,620)**	**(262,268)**	**1,269,524**
Derek Randall	2017	2020	EPS	221,948	–	(6,266)	(215,682)	–
	2018	2021	EPS	222,372	–	–	–	222,372
	2019	2022	EPS	269,433	–	–	–	269,433
	2020	2023	EPS	–	291,210	–	–	291,210
Total				**713,753**	**291,210**	**(6,266)**	**(215,682)**	**783,015**
Adam Semple	2017	2020	EPS	31,655	–	(895)	(30,760)	–
	2018	2021	EPS	195,498	–	–	–	195,498
	2019	2022	EPS	231,092	–	–	–	231,092
	2020	2023	EPS	–	271,739	–	–	271,739
Total				**458,245**	**271,739**	**(895)**	**(30,760)**	**698,329**
				3,448,714	**1,564,891**	**(23,379)**	**(804,661)**	**4,185,565**

Performance conditions are based on a range of EPS targets as follows:

	Threshold (25% vests)	Maximum (100% vests)
2018 award[1]	7.88p	9.75p
2019 award[2]	8.41p	10.39p
2020 award[3]	6.57p	8.36p

[1] Represents a PBT range of £29.5m - £36.5m. These awards will lapse in full as threshold EPS performance was not achieved.

[2] Represents a PBT range of £31.0m - £38.3m.

[3] Represents a PBT range of £25.5m - £32.5m.

* Vesting date is June in the relevant years other than 2023 when it is December.

Statement of directors' shareholding (audited)

As at 31 March 2021, all executive directors and their connected persons had a shareholding as follows:

	Shareholding requirement	Actual share ownership as a percentage of shareholding requirement as at 31 March 2021[1]
Alan Dunsmore	200%	284%
Ian Cochrane	200%	509%
Adam Semple	150%	53%
Derek Randall	150%	341%

[1] Value of actual share ownership was calculated with reference to the closing mid-market share price at 31 March 2021 of 78.4p. Actual share ownership includes DSBP shares granted but still within the three-year deferral period and / or unexercised.

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2021.

	Owned shares[1]	Share incentive plan (SIP)[2]	Sharesave scheme	DSBP[3]	PSP[4]	Total[5]
Executives						
Alan Dunsmore	1,130,449	22,733	26,470	362,651	1,434,697	**2,977,000**
Ian Cochrane	1,941,790	22,733	27,237	327,095	1,269,524	**3,588,379**
Derek Randall	965,988	4,667	–	374,979	783,015	**2,128,649**
Adam Semple	76,755	–	–	172,392	698,329	**947,476**
Non-executives						
Kevin Whiteman	–	–	–	–	–	**–**
Alun Griffiths	50,000	–	–	–	–	**50,000**
Tony Osbaldiston	–	–	–	–	–	**–**
Louise Hardy	–	–	–	–	–	**–**

1 Includes shares owned by connected persons and excludes DSBP shares granted but still within the three-year deferral period.

2 SIP shares are unvested and held in trust.

3 The principal terms of the deferred share bonus plan are described on page 124.

4 PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2018 awards which had not actually lapsed as at 31 March 2021.

5 There have been no changes in the directors' interests in the shares issued or options granted by the Company between the end of the period and the date of this annual report, except shares held pursuant to the SIP. There have been no changes in the directors' beneficial interests in trusts holding ordinary shares of the Company. Some of the executive directors continued their membership in the SIP after the end of the period and were therefore awarded further shares pursuant to the SIP rules. Between the end of the period and 25 May 2021, being the last practicable date prior to the publication of this annual report, the executive directors acquired further shares under the SIP as set out in the table below.

Executives	**New SIP shares since 31 March 2021**	Total SIP shares at 25 May 2021
Ian Cochrane	**316**	23,049
Alan Dunsmore	**316**	23,049

Position against dilution limits

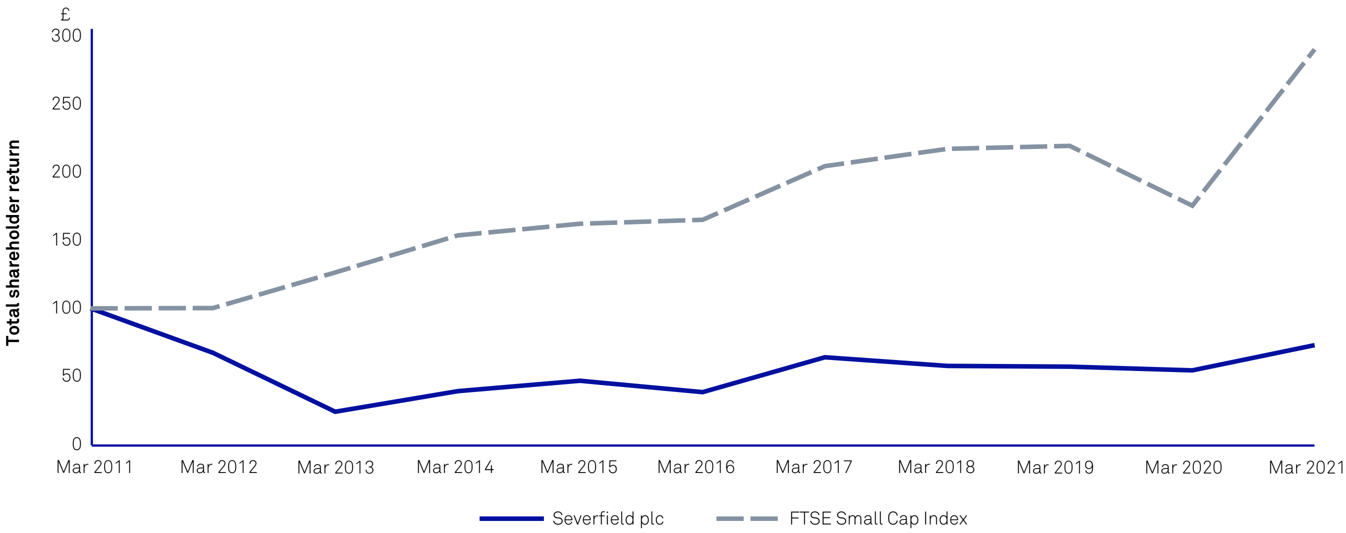
Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan (SIP), sharesave scheme and the PSP) must not exceed 10 per cent of the issued share capital in any rolling ten-year period. Within this 10 per cent limit, the Group can only issue 5 per cent of its issued share capital to satisfy awards under executive discretionary schemes. The Group's position against its dilution limit as at 31 March 2021 was under the maximum 10 per cent limit at 6.5 per cent.

DIRECTORS' REMUNERATION REPORT

Performance graph

The following graph shows the Group'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 1 April 2011 over the ten-year period ended 31 March 2021.

This index was selected as it represents a broad equity market index and is considered to be the most appropriate comparator group of companies over a ten-year period commencing April 2011.



Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same ten-year period. Total remuneration includes bonuses and the value of PSP awards which vested based on performance in those years (at the share price at which they vested).

	2011 Haughey	2013 Haughey[1]	2013 Dodds[2,3]	2014 Dodds[2]	2014 Lawson[4]	2015 Lawson	2016 Lawson	2017 Lawson	2018 Lawson[5]	2018 Dunsmore[6]	2019 Dunsmore	2020 Dunsmore	2021 Dunsmore
Total remuneration (£000)	701	450	62	289	233	681	946	1,228	738	819	890	880	747
Annual bonus (%)	60.5%	–	N/A	N/A	34.0%	65.0%	63.0%	95.0%	–	62.6%	20.0%	61.0%	80.0%
LTIP vesting (%)	–	–	N/A	N/A	–	–	64.0%	74.0%	95.4%	95.4%	100.0%	85.0%	–

[1] Tom Haughey received compensation of £423,000 for loss of office in accordance with his contract.

[2] John Dodds was appointed executive chairman in an interim capacity following Tom Haughey's resignation as chief executive officer on 23 January 2013 and prior to the appointment of Ian Lawson as chief executive officer on 1 November 2013. During this time he was awarded a discretionary bonus (no maximum was set) but not entitled to any PSP award. These figures do not include his fees as non-executive chairman.

[3] Financial year 2013 represented the 15 month period to 31 March 2013.

[4] Appointed on 1 November 2013.

[5] Ian Lawson received compensation of £408,000 for loss of office in accordance with his contract.

[6] Alan Dunsmore operated as interim chief executive officer from 1 April 2017 to 31 January 2018, during Ian Lawson's absence due to physical ill health. Alan's appointment to this role was made permanent from 1 February 2018. The figures in the table above represent Ian Lawson's remuneration for this period and Alan Dunsmore's remuneration for the period in which he was both interim and permanent chief executive officer.

How the change in directors' pay for the year compares to that of the Group's employees

The table below shows the percentage change in salary, benefits and annual bonus earned for the directors compared to the percentage change of each of those components of pay of the employees of the Group (calculated by reference to the mean on employee pay on a full-time equivalent basis).

	Base salary/ fees	Benefits	Annual bonus
Alan Dunsmore	2%	0%	33%
Ian Cochrane	2%	0%	33%
Derek Randall	2%	0%	15%
Adam Semple	7%	0%	38%
Kevin Whiteman[1]	103%	–	–
Alun Griffiths	6%	–	–
Tony Osbaldiston	0%	–	–
Louise Hardy[2]	0%	–	–
John Dodds[3]	0%	–	–
All UK employees	2%	0%	6%

[1] Kevin Whiteman was appointed as chairman on 3 September 2020.

[2] Louise Hardy was appointed to the board on 3 September 2019. To enable comparison and to provide meaningful reflection of the annual percentage change, her fees for the year ended 31 March 2020 have been annualised.

[3] John Dodds resigned on 3 September 2020.

Chief executive officer pay ratio disclosure

Year	Method of calculation adopted	**25th percentile pay ratio** (CEO: UK employees)	**Median pay ratio** (CEO: UK employees)	**75th percentile pay ratio** (CEO: UK employees)
2021	Option A[2]	25:1	18:1	14:1
2020[1]	Option A[2]	30:1	22:1	17:1

[1] The chief executive officer's total remuneration figure for the year ended 31 March 2020 has been restated to reflect the actual number of PSP awards that vested using the vesting share price (see page 130). The ratios for the year ended 31 March 2020 have therefore been updated accordingly.

[2] Option A methodology was selected on the basis that it is a robust approach and is preferred by shareholders and proxy voting agencies. The calculations for the representative employees were performed at the final day of the relevant financial year.

A substantial proportion of the chief executive officer's total remuneration is performance related and delivered in shares. The ratios will therefore depend significantly on the chief executive officer's annual bonus and PSP outcomes, and may fluctuate year-to-year.

The median ratio of 18:1 is 18 per cent lower than the median ratio of 22:1 in 2020. This reduction in the chief executive officer pay ratio is due to the chief executive officer's PSP awards not vesting for the year ended 31 March 2021.

The committee has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Total pay and benefits used to calculate the ratios

Pay details for the chief executive officer and individual whose remuneration is at the median, 25th percentile and 75th percentile amongst full-time equivalent UK-based employees are as follows:

	Chief executive officer	25th percentile	Median	75th percentile
Year	£000	£000	£000	£000
2021				
Salary	364	29	37	49
Total pay and benefits	747	29	41	53
2020				
Salary	356	26	38	48
Total pay and benefits	880	29	40	51

DIRECTORS' REMUNERATION REPORT

The UK employee percentile total pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year for the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and LTIPs) for all UK-based employees of the Group as at 31 March 2021. The calculations are on the same basis as required for the chief executive officer's remuneration for single figure purposes. The committee selected this methodology as it was felt to produce the most statistically accurate result.

The following table shows the actual spend on pay for all employees relative to revenue and underlying operating profit before the results of JVs and associates:

	2021 £000	2020 £000	% change
Staff costs	75,630	70,714	7.0%
Revenue	363,254	327,364	11.0%
Underlying* operating profit	25,470	26,978	(5.6%)
Dividends	8,895	8,851	0.5%

There were no share buybacks during the year.

Shareholder voting

The results below show the response to the 2020 AGM shareholder voting for the directors' 2020 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	253,671,011	99.9%
Against	242,584	0.1%
Total votes cast (for and against)	253,913,595	100%
Withheld votes	38,347	N/A
Total votes (including withheld votes)	253,951,942	N/A

The results below show the response to the 2020 AGM shareholder voting for the directors' 2020 remuneration policy:

	Total number of votes	% of votes cast
For	239,038,916	94.71%
Against	13,347,225	5.29%
Total votes cast (for and against)	252,386,141	100%
Withheld votes	1,565,800	N/A
Total votes (including withheld votes)	253,951,941	N/A

Implementation of policy for 2021

The executive directors' salaries

The salaries of the executive directors will be reviewed in July 2021 and any increases will be set in the context of overall salary increases for the wider workforce.

The executive directors' salaries at the start of the 2022 financial year are as follows:

	£
Alan Dunsmore	365,568
Ian Cochrane	325,772
Adam Semple	250,000
Derek Randall	267,913

* The basis for stating results on an underlying basis is set out on page 06.

Benefits and pension

All executive directors will be entitled to a car allowance of £15,000 (chief executive officer: £18,000), a fuel allowance, life insurance cover and medical insurance.

For the year ending 31 March 2022, pension opportunity for the chief executive and other executive directors has been reduced to 19 per cent and 17 per cent of salary, respectively. As disclosed on page 123, executive pension contribution levels will be aligned with the level available to the entire UK workforce by 31 December 2022.

Rewards for performance in 2022

Bonus
The maximum opportunity is set at 100 per cent of salary for executive directors in line with the remuneration policy. The performance measures are as follows:

Profit performance-based component — 80 per cent
Maximum bonus based on actual PBT versus budget.

The committee believes that the threshold and maximum targets (as a percentage of budget) are appropriately positioned, taking into account levels of growth forecast in the board's strategy review in December 2020 and external analyst consensus.

PBT % of budget	% of award
95 or below	–
100	50
110 or better	100

Sliding scale applies between points.

Safety performance-based component — 20 per cent
Group IFR (incident frequency rate)[†]. IFR and AFR are industry-recognised and measurable targets.

[†] Whilst Derek Randall remains in India the safety component of his bonus will be based on AFR (India).

The committee believes that the PBT, IFR and AFR targets are commercially sensitive metrics and therefore are not disclosed at this time. Actual target figures will be disclosed on a retrospective basis when these sensitivities have been removed.

PSP

It is the committee's intention to grant PSP awards of 100 per cent of salary to the chief executive officer and the chief operating officer and 75 per cent of salary to the Group finance director and the JSSL managing director. The awards will be subject to the following three-year EPS performance targets:

EPS performance for three-year period ending 31 March 2024	Vesting (% maximum)
Equal to or less than 7.61p (equivalent to PBT of £30.0m)	0%
Between 7.61p and 9.92p (equivalent to PBT between £30.0m and £40.0m)	Between 25% and 100%
Equal to 9.92p or better (equivalent to PBT of £40.0m)	100%

Slide scale applies between points.

When setting this target range, the committee considered a number of reference points, including internal financial forecasts, external analyst consensus, the base EPS and a broad view of the wider construction industry. The committee considers the targets to be appropriately stretching taking into account the continuing expected recovery of profitability and recognising that market conditions remain challenging in many areas.

The committee retains discretion to adjust the formulaic vesting outcome if it is not considered to be appropriate taking into account wider Group performance during the performance period. This includes consideration of any 'windfall gains' at the point of vesting.

DIRECTORS' REMUNERATION REPORT

How will the non-executive directors be paid in the 2022 financial year?

In March 2021, the board undertook a benchmarking exercise of non-executive fees during the process of recruiting a new non-executive director. This exercise demonstrated that the current level of fees have fallen below market compared to the Group's peers of other FTSE small caps and, accordingly, the fees have been increased for the first time since 2014 (other than the chairman's fee, which was reviewed in 2018). The revised fees for the chairman and non-executive directors will be as follows:

£	2022	2021
Chairman	140,000	125,000
Basic fee for other non-executive directors	45,000	40,000
Additional fee for SID role	7,500	5,000
Additional fee for chairman of audit and remuneration committees	7,500	5,000
Additional fee for workforce engagement director role	7,500	n/a

Approval

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

Alun Griffiths
Chairman of the remuneration committee
16 June 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards, including FRS 101 'Reduced Disclosure Framework'.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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 strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, 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.

By order of the board

Alan Dunsmore
Chief executive officer
16 June 2021

Adam Semple
Group finance director
16 June 2021

OUR FINANCIALS

CONTENTS

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

1. Our opinion is unmodified

We have audited the financial statements of Severfield plc ('the Company') for the year ended 31 March 2021 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, Company balance sheet, Company statement of changes in equity and the related notes, including the accounting policies in note 1.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 2 September 2015. The period of total uninterrupted engagement is for the six financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£1.2m (2020: £1.3m) 4.9% (2020: 4.9%) of profit before tax	
Coverage	98% (2020: 96%) of Group profit before tax	
Key audit matters		**vs 2020**
Recurring risk	Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts	◀▶
Event driven	**New:** Valuation of intangibles and contingent consideration, and related disclosures for acquisitions of DAM Structures	▲
Recurring risks	Going Concern	◀▶
Recurring risks	Carrying value of parent Company's investments in subsidiaries and joint ventures	◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts Revenue: £363.3m (2020: £327.4m) Construction contract assets: £16.3m (2020: £29.1m) *Refer to page 108 (audit committee report), pages 162 and 167 (accounting policies, judgements and estimates) and note 17 (construction contracts).*	**Subjective estimate** The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract assets, as well as the revenue and profit recognised, are based on an input measure (being costs incurred to date as a proportion of estimated total contract costs) and estimates of total contract consideration (being agreed contract consideration plus elements of variable consideration such as instances where the value of variations is currently unagreed). Estimated total contract costs, and as a result revenues, can be affected by a variety of uncertainties, including associated claims against customers, that depend on the outcome of future events resulting in revisions throughout the contract period. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying value of contract assets, revenue and profit recognised on construction contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: – **Our sector experience:** Identifying high risk contracts with risk indicators including: low margin or loss-making contracts with significant costs to complete estimates, uncertainty over variable consideration, significant disputes with customers, and large carrying value of contract assets. Engaging our own major projects advisory specialists to assist with this identification. – **Tests of detail:** For the high risk contracts identified, agreeing uncertain variable consideration to post-year-end cash, post-year-end certification, or customer agreed variation schedules. Involving our own specialists to assess the position taken and assist in challenging management on the appropriateness of including such items in the value of contract revenue and contract assets where such evidence was not available; – **Our sector experience:** Assessing forecasted costs to complete in the sample of high risk contracts identified by understanding contract performance and costs incurred post year-end, along with discussion and challenge of management's costs to complete estimates against original budgets and current run rates, including consideration of COVID-19 related impacts; – **Tests of detail:** Assessing the accuracy of costs incurred to date through sample testing, including an assessment of whether the cost sampled was allocated to the appropriate contract; – **Tests of detail:** Verifying the existence of contract claims against the Group to external correspondence and challenging management's assessment of these, involving our own specialists to challenge the position taken; – **Historical comparisons:** Assessing the forecasting accuracy of contract revenue and costs by evaluating initial forecasted margins for a sample of contracts across the portfolio against actual margins achieved; – **Assessing transparency:** Assessing the adequacy of the Group's disclosures on revenue recognition and the degree of estimation involved in arriving at the construction contract assets and associated revenue and profit recognition. **Our results:** – We found the carrying value of construction contract assets, and the level of revenue and profit recognition in relation to construction contracts, to be acceptable (2020: acceptable).

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit. However, following the implementation of The Trade and Cooperation Agreement during the period, the degree of uncertainty has reduced significantly, particularly in the short- to medium-term. As a result, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year. The valuation of intangibles and contingent consideration and relates disclosures for acquisition of Harry Peers is no longer a key audit matter in the current year as this was valued in the prior year and the unwind and amortisation of balances does not involve the same complexity and risk as in the acquisition year.

	The risk	Our response
Provisional valuation of intangibles and contingent consideration, and related disclosures for acquisition of DAM Structures Goodwill: £15.1m Intangible Assets: £4.8m Contingent Consideration: £10.6m *Refer to page 46 (operating performance), page 54 (financial performance), page 108 (audit committee report), page 167 (accounting policies, judgements and estimates and note 21 (business combinations).*	**Subjective Valuation** On 26 February 2021 the Group acquired DAM Structures Limited ('DAM Structures') for a total gross consideration of £28.6m, of which £17.9m was net cash consideration, and £10.6m was the fair value of deferred and contingent consideration, which has a maximum potential payment of £15.0m depending on performance. In accounting for the acquisition, the Group needs to ensure all identifiable assets are recognised at their acquisition-date fair values. The valuation of intangible assets and contingent consideration requires a significant degree of judgement with estimates including the trading performance of DAM Structures, the timing of future cash flows and the discount rate applied. The valuation being provisional, due to the proximity of the acquisition to year end, results in a risk around the accuracy and quality of disclosed amounts in the financial statements. The effect of these matters is that, as part of our risk assessment, we determined that valuation of intangible assets identified and contingent consideration and goodwill in relation to the DAM Structures acquisition has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: – **Our sector experience:** Evaluating assumptions used, in particular those relating to forecast revenue and EBITDA performance, and customer attrition rates, engaging our own valuation specialists to evaluate assumptions such as the discount rate used; – **Methodology choice:** Using our own valuation specialists to assess the methodology used in valuing the intangible assets recognised, such as the order book and customer relationship intangible assets, as well as the contingent consideration; – **Tests of detail:** Corroborating management's calculations to supporting documentation such as Sale Purchase Agreement, and supporting documentation relating to the balance sheet on acquisition; – **Sensitivity analysis:** We performed our own analysis to assess the sensitivity of the valuation of intangible assets and contingent consideration to changes in the key assumptions, noted above; – **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the identification and valuation of acquisition-related intangible assets and contingent consideration. **Our results:** – We found the provisional valuation of intangibles and contingent consideration, and related disclosures for acquisition of DAM Structures to be acceptable.

	The risk	Our response
Going concern *Refer to page 46 (operating performance), page 54 (financial performance), page 59 (viability statement), page 80 (principal risks), page 108 (audit committee report) and page 159 (significant accounting policies).*	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's available financial resources over this period were: – Economic downturn resulting in significant market deterioration reducing forward orders and profitability. There are also less predictable but realistic second order impacts, such as: – A further incidence of construction site closures resulting from COVID-19, causing delays in project completion, and associated revenue and cash flow. – The risk of COVID-19 or commodity price rises to the supply chain, which could have a significant impact on operations. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: – **Funding assessment:** Inspected confirmation of the Group's committed level of financing and related covenant requirements. – **Historical comparisons:** We considered the Group's historical budgeting accuracy, by assessing actual performance against budget. – **Sensitivity analysis:** We considered sensitivities over the level of available financial resources and headroom on covenant requirements indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. – **Sensitivity analysis:** We assessed management's base-case forecast to ensure consideration had been given to the impact of COVID-19, and that this impact was included in projections of the Group's financial resources. – **Benchmarking assumptions:** We benchmarked the assumptions behind the cash flow forecasts to third party evidence, such as sector-specific, as well as UK-wide, economic forecasts, to assess downside assumptions. – **Evaluating directors' intent:** We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise; – **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by comparing disclosures to risks identified, and sensitivities applied. **Our results:** – We found the going concern disclosure without any material uncertainty to be acceptable (2020: acceptable).

	The risk	Our response
Carrying value of parent Company's investments in subsidiaries and joint ventures £152.7m (2020: £128.8m) *Refer to page 161 (accounting policy) and page 199 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries and joint ventures represents 51% (2020: 47%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: – **Tests of detail:** Comparing the carrying amount of 100% of the investments balance with the relevant subsidiaries' and joint ventures' draft balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries and joint ventures have historically been profit-making. – **Assessing subsidiary and joint venture audits:** Assessing the work performed by the subsidiary and joint venture audit teams on all of those subsidiaries and joint ventures and considering the results of that work, on those subsidiaries' and joint ventures' profits and net assets. – **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' and joint ventures' profit. **Our results:** – We found the Group's assessment of the recoverability of the investment in subsidiaries and joint ventures to be acceptable (2020: acceptable).

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 £1,200,000 (2020: £1,335,000), determined with reference to a benchmark of Group profit before tax (normalised to exclude amortisation and costs as a result of acquisitions as disclosed in note 5) of which it represents 4.9% (2020: 4.9%).

Materiality for the parent company financial statements as a whole was set at £1,000,000 (2020: £900,000), determined with reference to a benchmark of Company total assets, of which it represents 0.3% (2020: 0.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £900,000 (2020: £1,000,000) for the Group and £750,000 (2020: £675,000) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £60,000 (2020: £66,750), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2020: 11) reporting components, we subjected six (2020: six) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

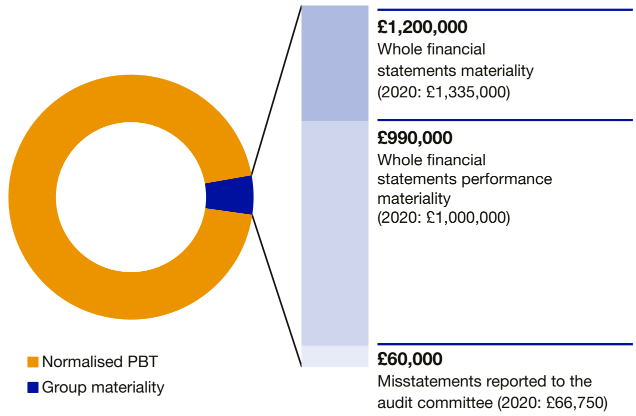
The remaining 5% (2020: 6%) of total Group revenue, 2% (2020: 4%) of Group profit before tax and 6% (2020: 2%) of total Group assets is represented by five (2020: three) reporting components, none of which individually represented more than 5% (2020: 3%) of any of total Group revenue, Group profit before tax or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group 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 team approved the component materialities, which ranged from £300,000 to £900,000 (2020: £400,000 to £950,000), having regard to the mix of size and risk profile of the Group across the components. The work on one of the six components (2020: one of the six components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

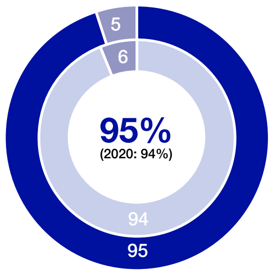
The Group team held video and telephone conference meetings with one (2020: one) component location in India (2020: India). At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor. The Group team also reviewed the audit file of the component auditor. The Group team performed procedures on the items excluded from normalised Group profit before tax.

Normalised profit before tax
£24,331,000 (2020: £27,200,000)

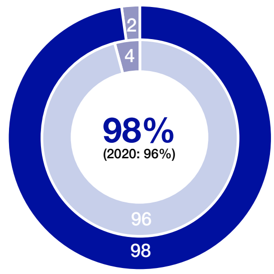
Group Materiality
£1,200,000 (2020: £1,335,000)



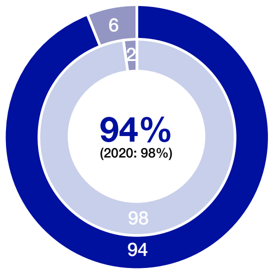
Group revenue



Group profit before tax



Group total assets



- Full scope for Group audit purposes 2021
- Full scope for Group audit purposes 2020
- Residual components

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 59 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management, including the EPS target for management remuneration.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at a Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, both in the current year and in future years, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that contract revenue is recognised in an overly optimistic or cautious manner given the subjective nature and risk of bias in the related accounting estimates, and the risk that Group and component management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

Further detail in respect of contract revenue is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual account combinations.
- Procedures over contract revenue performed for all full scope components are detailed in section 2 of this report.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, employment law and tax, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

Disclosures of emerging and principal risks and longer-term viability
We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement (page 59) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 59, under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures
We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in this respect.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

7. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 141, the directors are responsible for: the preparation of the financial statements, including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities.**

9. The purpose of our audit work and to whom we owe our responsibilities

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.

David Morritt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Sovereign Square
Sovereign Street
Leeds
LS1 4DA

16 June 2021

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 MARCH 2021

	Note	Underlying 2021 £000	Non-underlying 2021 £000	Total 2021 £000	Underlying 2020 £000	Non-underlying 2020 £000	Total 2020 £000
Continuing operations							
Revenue	3	**363,254**	**–**	**363,254**	327,364	–	327,364
Operating costs	4	**(337,784)**	**(2,795)**	**(340,579)**	(300,386)	(2,294)	(302,680)
Operating profit before share of results of JVs and associates		**25,470**	**(2,795)**	**22,675**	26,978	(2,294)	24,684
Share of results of JVs and associates	15	**(344)**	**–**	**(344)**	2,355	–	2,355
Operating profit		**25,126**	**(2,795)**	**22,331**	29,333	(2,294)	27,039
Net finance expense	7	**(795)**	**(429)**	**(1,224)**	(712)	(514)	(1,226)
Profit before tax		**24,331**	**(3,224)**	**21,107**	28,621	(2,808)	25,813
Taxation	8	**(4,574)**	**771**	**(3,803)**	(4,959)	(439)	(5,398)
Profit for the year attributable to the equity holders of the parent		**19,757**	**(2,453)**	**17,304**	23,662	(3,247)	20,415
Earnings per share:							
Basic	10	**6.43p**	**(0.80)p**	**5.63p**	7.74p	(1.06)p	6.68p
Diluted	10	**6.43p**	**(0.80)p**	**5.63p**	7.70p	(1.06)p	6.64p

Further details of non-underlying items are disclosed in note 5 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000
Actuarial (loss)/gain on defined benefit pension scheme*	30	**(4,906)**	255
Gains/(losses) taken to equity on cash flow hedges	25	**1,699**	(1,403)
Reclassification adjustments on cash flow hedges	25	**251**	(410)
Exchange difference on foreign operations	25	**34**	(34)
Tax relating to components of other comprehensive income*	20	**734**	(184)
Other comprehensive income for the year		**(2,188)**	(1,776)
Profit for the year from continuing operations		**17,304**	20,415
Total comprehensive income for the year attributable to equity holders of the parent		**15,116**	18,639

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

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2021

	Note	2021 £000	2020 £000
Assets			
Non-current assets			
Goodwill	11	**85,782**	70,714
Other intangible assets	12	**9,630**	7,375
Property, plant and equipment	13	**91,698**	88,864
Right-of-use asset	14	**9,808**	10,140
Interests in JVs and associates	15	**28,790**	26,690
Contract assets, trade and other receivables	18	**4,368**	–
		230,076	203,783
Current assets			
Inventories	16	**10,231**	6,856
Contract assets, trade and other receivables	18	**67,847**	74,612
Derivative financial instruments	22	**1,049**	–
Current tax assets		**3,584**	1,640
Cash and cash equivalents	22	**24,983**	44,338
		107,694	127,446
Total assets		**337,770**	331,229
Liabilities			
Current liabilities			
Trade and other payables	19	**(77,803)**	(84,366)
Financial liabilities — borrowings	22	**(5,900)**	(19,375)
Financial liabilities — leases	22	**(1,744)**	(1,502)
Derivative financial instruments	22	**–**	(1,135)
		(85,447)	(106,378)
Non-current liabilities			
Trade and other payables	19	**(10,639)**	–
Retirement benefit obligations	30	**(22,379)**	(18,688)
Financial liabilities — borrowings	22	**(14,850)**	(8,750)
Financial liabilities — leases	22	**(9,365)**	(9,729)
Deferred tax liabilities	20	**(4,161)**	(4,009)
		(61,394)	(41,176)
Total liabilities		**(146,841)**	(147,554)
Net assets		**190,929**	183,675
Equity			
Share capital	24	**7,706**	7,648
Share premium		**87,658**	87,292
Other reserves	25	**3,464**	1,402
Retained earnings		**92,101**	87,333
Total equity		**190,929**	183,675

The consolidated financial statements were approved by the board of directors on 16 June 2021 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AT 31 MARCH 2021

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2020		**7,648**	**87,292**	**1,402**	**87,333**	**183,675**
Total comprehensive income for the year		**–**	**–**	**1,984**	**13,132**	**15,116**
Ordinary shares issued*		**58**	**366**	**–**	**–**	**424**
Equity settled share-based payments	23	**–**	**–**	**78**	**531**	**609**
Dividends paid		**–**	**–**	**–**	**(8,895)**	**(8,895)**
At 31 March 2021		**7,706**	**87,658**	**3,464**	**92,101**	**190,929**

* The issue of shares represents shares allotted to satisfy the 2017 Performance Share Plan award which vested in June 2020 and the 2017 Sharesave scheme.

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2019		7,600	87,254	3,819	76,334	175,007
Changes in accounting policy		–	–	–	(895)	(895)
Restated total equity at 1 April 2019		7,600	87,254	3,819	75,439	174,112
Total comprehensive income for the year		–	–	(1,847)	20,486	18,639
Ordinary shares issued*		48	38	–	–	86
Equity settled share-based payments	23	–	–	(570)	259	(311)
Dividends paid		–	–	–	(8,851)	(8,851)
At 31 March 2020		7,648	87,292	1,402	87,333	183,675

* The issue of shares represents shares allotted to satisfy the 2016 Performance Share Plan award which vested in June 2019 and the 2017 and 2018 Sharesave schemes.

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000
Net cash flow from operating activities	26	**25,349**	21,980
Cash flows from investing activities			
Proceeds on disposal of other property, plant and equipment		**104**	267
Purchases of land and buildings		**(247)**	(1,519)
Purchases of intangible assets		**(276)**	–
Purchases of other property, plant and equipment		**(6,097)**	(4,945)
Investment in JVs and associates	15	**(2,444)**	–
Investment in subsidiary entities, net of cash acquired	21	**(17,489)**	(13,390)
Net cash used in investing activities		**(26,449)**	(19,587)
Cash flows from financing activities			
Interest paid		**(699)**	(598)
Dividends paid		**(8,895)**	(8,851)
Proceeds from shares issued		**424**	86
Proceeds from borrowings		**12,000**	29,000
Repayment of borrowings		**(19,375)**	(875)
Repayment of lease liabilities		**(1,710)**	(1,796)
Net cash (used in)/generated from financing activities		**(18,255)**	16,966
Net (decrease)/increase in cash and cash equivalents		**(19,355)**	19,359
Cash and cash equivalents at beginning of year		**44,338**	24,979
Cash and cash equivalents at end of year	27	**24,983**	44,338

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

1. Significant accounting policies

General information

Severfield plc ('the Company') is a company incorporated in the United Kingdom under the Companies Act 2006. The Company's shares are publicly traded on the London Stock Exchange. The address of the registered office is provided on page 203. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 20 to 29. These financial statements are presented in sterling, which is the currency of the primary economic environment in which the Group operates.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 ('the Act') and in accordance with International Financial Reporting Standards as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated 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.

EU Endorsed International Financial Reporting Standards effective in the year

The following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- IFRS 3 'Business Combinations' – amendments to clarify the minimum requirements for a business and to assist entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.
- IAS 1 'Presentation of Financial statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – amendment to the definition of 'material' in the context of applying IFRS.
- IFRS 9 'Financial Instruments', IFRS 7 'Financial Instruments: Disclosures' and IAS 39 'Financial Instruments: Recognition and Measurement' – amendment requiring additional disclosures around uncertainty arising from the interest rate benchmark reform.
- Amendments to references to conceptual framework in IFRS standards.

EU International Financial Reporting Standards not yet effective

The following new or revised standards and interpretations issued by the International Accounting Standards Board have not been applied in preparing these financial statements as their effective dates fall in periods beginning on or after 1 April 2021.

- IFRS 17 'Insurance Contracts'
- IFRS 10 and IAS 28 (amendments) 'Sale or contribution of assets between an investor and its associate or joint venture'
- Amendments to IAS 1 'Classification of liabilities as current or non-current'
- Amendments to IFRS 3 'Reference to the conceptual framework'
- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 'Interest rate benchmark reform – phase 2'
- Amendments to IAS 16 'Property, plant and equipment – proceeds before intended use'
- Amendments to IAS 37 'Onerous contracts – cost of fulfilling as contract'
- Amendments to IFRS 16 'Covid-19 related rent concessions'

Going concern

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

The following factors were considered as relevant:

- The current market conditions and the impact of these (including the potential future impact of COVID-19 and similar other significant downside risks linked to our principal risks) on the Group's profits and cash flows,
- The UK and Europe order book and the pipeline of potential future orders,
- The Group's 'SSS' business improvement programme, which has delivered tangible benefits in 2021 and is expected to continue doing so in the 2022 financial year and for the period under forecast, and
- The Group's net funds position and its bank finance facilities, which are committed until October 2023, including both the level of those facilities and the three financial covenants attached to them (interest cover (>4x), net debt to EBITDA (<2.5x) and cash flow cover (<1x)).

The Group has continued to trade safely and profitably with positive operating cash flows for the year ended 31 March 2021 whilst operating under various COVID-19 restrictions. Whilst there continues to be some uncertainty associated with COVID-19, the directors expect the Group to remain similarly resilient over the forecast period whilst it continues to operate under any further potential restrictions until the end of the pandemic.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

The directors have reviewed the Group's forecasts and projections for the 2022 financial year and up to at least 12 months from the date of approval of the financial statements, including sensitivity analysis to assess the Group's resilience to potential adverse outcomes arising out of COVID-19 (or other similar significant disruptions) including a highly pessimistic 'worst case' scenario. This 'worst case' is based on the combined impact of securing no further orders for the next 12 months and further significant COVID-19 disruption for the entirety of the going concern period. Given the strong previous performance of the Group, despite three separate COVID-19 lockdowns, this scenario is only being modelled to stress test our strong financial position and demonstrate the existence of considerable headroom in the Group's covenants and borrowing facilities.

The directors also considered sensitivities in respect of other potential downside scenarios in concluding that the Group can continue in operation for a period of at least 12 months from the date of approving the financial statements. Having also made appropriate enquiries, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and for this reason, have continued to adopt the going concern basis in preparing the financial statements.

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 over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. 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.

Non-underlying items

Non-underlying items have been separately identified to provide a better indication of the Group's underlying business performance. They are not considered to be 'business as usual' items and have a varying impact on different businesses and reporting periods.

Non-underlying items are presented as a separate column within their related consolidated income statement category. Their separate identification results in the calculation of an underlying profit measure in the same way as it is presented and reviewed by management.

Items that may give rise to classification as non-underlying include, but are not limited to, the amortisation of acquired intangible assets, movements in the valuation of derivative financial instruments and certain non-recurring legal and consultancy costs.

Further details of non-underlying items are disclosed in note 5 to the consolidated financial statements.

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. Acquisition-related costs are expensed as incurred. 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.

1. Significant accounting policies continued

Investments in joint ventures and 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 adopted the equity method of accounting (as discussed below) for joint ventures and associated companies (together 'JVs and associates'), in accordance with IFRS 11.

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

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the JVs and associates 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 JVs and associates 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 the JVs and associates' profit less losses, while the Group's share of the net assets of the JVs and associates is shown in the consolidated balance sheet.

Goodwill

The Group recognises goodwill at cost less accumulated impairment losses. 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.

Any contingent consideration is recognised at the date of acquisition. For acquisitions, subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition where they qualify as measurement period adjustments. The measurement period is the period from the date of acquisition to the date that the Group obtains complete information about facts and circumstances that existed as at the date of acquisition and is subject to a maximum of one year. If the change does not qualify as a measurement period adjustment, it is reflected in the consolidated income statement.

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.

Negative goodwill arising on acquisition is recognised immediately in the consolidated income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods and services provided, net of sales taxes, rebates and discounts, after eliminating revenue within the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

1. Significant accounting policies continued

Construction contracts

Revenue arises mainly from contracts for the design, fabrication and construction of structural steelwork. To determine whether to recognise revenue, the Group applies this five-step process:

- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price of the contract(s);
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

The Group enters into contracts for the design, fabrication and construction of structural steel projects in exchange for the agreed consideration and recognises the related revenue over time. Due to the high degree of interdependence between the various elements of these projects, they are accounted for as a single performance obligation. The transaction price is measured based on the consideration specified in a contract with a customer and, where applicable, the best estimate of any consideration related to modifications to the contract, which have yet to be agreed. Revenue recognised includes retentions and is net of rebates, discounts and value added tax. To depict the progress by which the Group transfers control of the construction to the customer, and to establish when and to what extent revenue can be recognised, the Group measures its progress towards complete satisfaction of the performance obligation by use of the input method (costs to complete). Where a modification to an existing contract occurs, the Group assesses the nature of the modification and whether it represents a separate performance obligation required to be satisfied or whether it is a modification to the existing performance obligation. This method is considered to most faithfully depict the transfer of goods and services to the customer over the life of the performance obligation.

The timing of payment from customers is generally aligned to revenue recognition, subject to agreed invoice terms. However, in some cases construction contracts have payment terms based on contractual milestones, which are not necessarily aligned to when revenue is recognised, particularly for those contracts where revenue is recognised over time using the input method to determine the percentage of completion. This generally leads to recognition of revenue in advance of customer billings, for which a contract asset is recognised. Where cash is received from the customer in advance of recognising revenue under a contract, a contract liability is recorded (advance payments from customers). The practical expedient available under IFRS 15 has been taken, thus the Group does not adjust the promised amount of consideration for the effects of financing if the timing difference between the satisfaction of the performance obligations under the contract and the receipt of payment due under the contract are expected to be one year or less.

The general principles for revenue recognition are as follows:

- Revenues on contracts are recognised over time, using the input method, when the contract's outcome can be estimated reliably.
- Provision is made for total losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.
- Variations are included in forecast contract revenues when it is considered highly probable that the customer will approve the variation and the amount of revenue arising from the variation, and the amount of revenue can be reliably measured.
- Incentive payments are included in forecast contract revenues when the contract is sufficiently advanced that it is highly probable that the specified performance standards will be met or exceeded and the amount of the incentive payment can be reliably measured.
- Claims receivable are recognised as income when negotiations have reached an advanced stage such that it is highly probable that the customer will accept the claim, and the amount that it is probable will be accepted by the customer can be measured reliably.
- Rectification work which is reasonably foreseeable is provided for as a cost of the contract and taken into account when assessing its overall profitability. Claims for rectification arising after the end of a contract and which have not been provided for are recognised as losses as they arise.

When determining whether a contract's outcome can be estimated reliably, management considers a number of indicators, including the stage of completion of the contract to provide assurance over the reliability of costs to complete, cumulative cash received and agreed certifications, the inherent risk in certain industry sectors and whether certain contract milestones have been satisfied.

All costs relating to contracts are recognised as expenses in the period in which they are incurred. Where the outcome of a contract cannot be reliably estimated, contract revenue is recognised only to the extent that contract costs incurred are expected to be recovered.

1. Significant accounting policies continued

The input method is used to determine the percentage of completion by reference to the contract costs incurred to date (the proportion that estimated total contract costs are accounted for by contract costs incurred for work performed to date). Only those contract costs that reflect work performed are included in costs incurred to date.

Total expected contract costs are initially determined by the estimating function during the contract tender process. At launch, responsibility for the contract is handed over to the commercial function (consisting of qualified quantity surveyors) which, on an ongoing basis, reassesses the expected contract costs as the contract progresses, taking into account the risks identified in contract risk registers.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Regular monthly contract reviews form an integral part of the contract forecasting procedures.

Contract assets

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on construction contracts. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities

Contract liabilities primarily relate to the advance payments from customers for construction contracts, for which revenue is recognised over time.

Retirement benefit obligations

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.

The Group has a defined benefit pension scheme which is now closed to new members. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high quality corporate bond, less the fair value of the scheme assets.

The cost of providing benefits recognised within operating costs in the income statement and the defined benefit obligations is determined at the reporting date by independent actuaries, using the projected unit credit method.

Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

1. Significant accounting policies continued

Dividends

Dividends are recorded in the consolidated 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

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, and plant and machinery are stated at cost in the balance sheet. Depreciation on buildings is included within operating costs.

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	1 per cent straight-line
Long leasehold buildings	Shorter of 1 per cent straight-line or lease term
Plant and machinery	10 per cent straight-line
Fixtures, fittings and office equipment	10 per cent written down value
Computer equipment	20 per cent straight-line
Motor vehicles	25 per cent written down value
Site safety equipment	20 per cent straight-line

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 included within operating costs.

Right-of-use assets and lease liabilities

The Group adopted IFRS 16 'Leases' on 1 April 2019 using the modified retrospective approach. The standard has resulted in many operating leases being recognised as right-of-use assets and lease liabilities on the consolidated balance sheet, since the classification as either operating leases or finance leases has been eliminated.

Under IFRS 16 'Leases', at the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether it has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset throughout the period of use.

Leases in which the Group is a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured as equal to the lease liability and adjusted for the amount of any prepaid or accrued lease payments relating to that lease before the commencement date, any lease incentives received, initial direct costs associated with the lease and an initial estimate of restoration costs. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

1. Significant accounting policies continued

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, in accordance with the exemption available under IFRS 16. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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.

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	4–5 years
Brands	5 years
Order book	18 months

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.

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.

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, with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement in line with the requirements of IFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

1. Significant accounting policies continued

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.

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. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 23.

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 and hedge accounting

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 22.

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, except where hedge accounting is used, provided the conditions specified by IFRS 9 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IFRS 9 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as cash flow hedges.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be recycled to the income statement (operating costs).

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

2. Critical accounting judgements and estimates

The preparation of financial statements under IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Assumptions and estimates are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

The following items are those that management considers to be critical due to the level of judgement and estimation required:

Revenue and profit recognition
Recognition of revenue and profit is based on judgements made in respect of the ultimate profitability of a contract. Such judgements are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in design and work scope, the contractual terms and site conditions under which the work is being performed, delays, costs incurred, claims received by the Group, external certification of the work performed and the recoverability of any unagreed income from claims and variations.

Management continually reviews the estimated final outturn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

The Group has appropriate internal control procedures over the determination of each of the above variables to ensure that profit recognised as at the balance sheet date and the extent of future costs to contract completion are reasonably and consistently determined and subject to appropriate review and authorisation.

There are eight contracts that management considers, require significant accounting estimates and the Group had included revenue and profit in the year relating to these contracts of £155,000,000 and £11,700,000, respectively. Management have performed sensitivity analysis on these contracts and assessed that if the Group's average contract margin increased or decreased by one per cent, the impact of this across these projects would result in an increase or corresponding decrease in profit in the year of £1,550,000.

At the balance sheet date, amounts due from construction contract customers, included in contract assets, trade and other receivables was £16,288,000 (2020: £29,048,000).

Identification and provisional valuation of intangible assets arising on the acquisition of DAM Structures
Provisional measurement of deferred and contingent consideration, material intangible assets and property, plant and equipment in an acquisition includes the use of external advisers to make a fair valuation of these items and assists in determining the assets remaining useful lives. Values were provisionally allocated to identifiable assets and liabilities on the date control was acquired, based on information available. They may be adjusted during the 12-month period following the acquisition date on the basis of new information obtained relating to the facts and circumstances prevailing at the time of the acquisition. The significant judgement in the provisional valuation of DAM Structures is the forecast future performance of the business post-acquisition, including the forecast pipeline of potential orders and the assumed win rates of the business in its chosen market sectors. Management believes that the provisional assigned values, as well as the underlying assumptions, are reasonable and are recognised in accordance with IFRS 3 'Business Combinations', though different assumptions and assigned lives could have a significant impact on the reported amounts. Further details of the assumptions used, including the discount rate applied, are disclosed in note 21.

Contingent liabilities
On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised only where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of contingent liabilities is made in note 28 unless the possibility of a loss arising is considered remote. These potential liabilities are subject to uncertain future events, may extend over several years and their timing may differ from current assumptions. Management applies its judgement in determining whether or not a liability on the balance sheet should be recognised or a contingent liability should be disclosed.

Retirement benefit obligations
The Group's defined benefit pension scheme has been valued in accordance with IAS 19 'Employee Benefits'. The benefit obligation is calculated using a number of assumptions including forecast discount and mortality rates (as disclosed in note 30). 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.

Significant judgement is required in setting the criteria for the valuation of the liability. 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.

The defined benefit obligation recognised at the balance sheet date was £22,379,000 (2020: £18,688,000).

Of the items discussed above, revenue and profit recognition represents the key source of estimation uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

3. Revenue and segmental analysis

Revenue

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

	2021 £000	2020 £000
Revenue from construction contracts	363,254	327,364
Other operating income (note 4)	2,658	1,244
Interest received (note 7)	33	53
Total income	365,945	328,661

Segmental results

Following the adoption of IFRS 8, the Group has identified its operating segments with reference to the information regularly reviewed by the executive committee (the chief operating decision maker ('CODM')) to assess performance and allocate resources. On this basis the CODM has identified one operating segment (construction contracts) which in turn is the only reportable segment of the Group.

The constituent operating businesses have been aggregated as they have similar products and services, production processes, types of customer, methods of distribution, regulatory environments and economic characteristics. Given that only one operating and reporting segment exists, the remaining disclosure requirements of IFRS 8 are provided below.

Revenues by product group

All revenue is derived from construction contracts and related assets.

Geographical information

Following the implementation of IFRS 15, the Group presents a disaggregation of its revenue according to the primary geographical markets in which the Group operates. This disaggregation of revenue is presented for the Group's one operating segment as noted above.

	2021 £000	2020 £000
Revenue by destination:		
United Kingdom	214,057	215,898
Republic of Ireland and mainland Europe	149,197	111,466
	363,254	327,364

Contract balances

The following table provides information about the receivables, contract assets and contract liabilities from contracts with customers:

	2021 £000	2020 £000
Receivables which are included in 'contract assets, trade and other receivables' (note 18)	56,541	62,254
Contract assets (note 18)	16,288	29,048
Contract liabilities (note 17)	–	(1,179)

Contract assets primarily relate to the Group's right to consideration for work completed but not billed at the reporting date on construction contracts. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance payments from customers for construction contracts, for which revenue is recognised over time. Included in contract liabilities at the beginning of the financial year was £1,179,000, of which £1,179,000 has been recognised as revenue for the year ended 31 March 2021.

There was no revenue recognised in the current financial year from performance obligations satisfied or partially satisfied in previous years.

3. Revenue and segmental analysis continued

The table below represents the aggregate amount of the transaction price allocated to be the performance obligations that are unsatisfied (or partially satisfied) as at 31 March 2021 and have an original expected contract duration of more than one year:

	2022 £000	2023 £000
Construction contracts	**100,934**	59,853

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for goods and services which the Group has promised to deliver to its customers, where the original contract duration is more than one year. This includes performance obligations which are partially satisfied at the year end or those which are unsatisfied but which the Group has committed to providing. In deriving this transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future. The practical expedient available under IFRS 15 has been taken and therefore no information is provided for the transaction price allocated to the remaining performance obligations where the original expected contract duration is one year or less.

Information about major customers

Included in Group revenue is £108,871,000 (2020: £47,655,000) relating to one major customer (spread over several contracts), who individually contributed more than 10 per cent of Group revenue in the year ended 31 March 2021.

4. Operating costs

	2021 £000	2020 £000
Raw materials and consumables (including subcontractor costs)	**215,634**	189,650
Staff costs (note 6)	**75,630**	70,714
Other operating charges	**42,836**	35,465
Amortisation of other intangible assets (note 12)	**4**	–
Lease expense (short-term or low-value assets):		
— plant and machinery	**128**	160
— other	**207**	128
Depreciation:		
— owned property, plant and equipment (note 13)	**4,434**	3,928
— right-of-use assets (note 14)	**1,569**	1,585
Other operating income	**(2,658)**	(1,244)
Operating costs before non-underlying items	**337,784**	300,386
Non-underlying items (note 5)	**2,795**	2,294
	340,579	302,680
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**25**	23
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	**315**	217
— audit-related assurance services	**25**	25
— other assurance services	**40**	40

Other operating income mainly represents research and development tax credits.

Fees payable to KPMG LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

In addition to the non-audit fees above, the Group incurred non-audit fees of £39,000 (2020: £59,000) in respect of other assurance services provided to its Indian joint venture.

Details of the Group's policy on the use of the auditor for non-audit services, the reason why the auditor was used and how the auditor's independence and objectivity were safeguarded are set out in the audit committee report on pages 108 to 111.
No services were performed pursuant to contingent fee arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

5. Non-underlying items

	2021 £000	2020 £000
Operating costs	2,795	2,294
Finance expense	429	514
Non-underlying items before tax	3,224	2,808
Tax on non-underlying items	(771)	439
Non-underlying items after tax	2,453	3,247

Non-underlying items before tax consist of:	2021 £000	2020 £000
Amortisation of acquired intangible assets – Harry Peers	2,842	1,421
Acquisition-related expenses – Harry Peers/DAM Structures	689	873
Contingent consideration movements – Harry Peers	(736)	–
Unwinding of discount on contingent consideration – Harry Peers	429	514
Non-underlying items after tax	3,224	2,808

Amortisation of acquired intangible assets represents the amortisation of customer relationships, order books and brand name, which were identified on the acquisition of Harry Peers. Acquisition-related expenses represent non-recurring legal and consultancy costs associated with the DAM Structures acquisition of £689,000 (2020: £nil) and the Harry Peers acquisition of £nil (2020: £873,000).

The basis for stating results on an underlying basis is set out on page 06. The board believes that non-underlying items should be separately identified on the face of the income statement to assist in understanding the underlying performance of the Group. Their separate identification results in the calculation of an underlying profit measure, which is the same as that presented and reviewed by management. Accordingly, certain alternative performance measures ('APMs') have been used throughout this annual report to supplement rather than replace the measures provided under IFRS.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 130.

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

	2021 Number	2020 Number
Production and site	1,208	1,149
Sales and administration	193	171
	1,401	1,320

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 £000
Wages and salaries	65,517	61,239
Social security costs	6,910	6,346
Other pension costs	3,203	3,129
	75,630	70,714

Employee remuneration costs under share-based payment schemes are set out in note 23.

7. Net finance expense

	2021 £000	2020 £000
Finance income	(33)	(53)
Finance expense	1,257	1,279
	1,224	1,226

8. Taxation

a) The taxation charge comprises:

	2021 £000	2020 £000
Current tax		
UK corporation tax	(3,940)	(3,945)
Adjustments to prior years' provisions	(69)	(578)
	(4,009)	(4,523)
Deferred tax (note 20)		
Current year credit/(charge)	25	(706)
Impact of change in future years' tax rates	–	(242)
Adjustments to prior years' provisions	181	73
	206	(875)
	(3,803)	(5,398)

b) Tax reconciliation

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

	2021 £000	2020 £000
Profit before tax	21,107	25,813
Tax on profit at standard UK corporation tax rate	(4,010)	(4,904)
Expenses not deductible for tax purposes	103	(194)
Tax effect of share of results of JVs and associates	(8)	447
Adjustments to prior years' provisions	112	(505)
Rate differences	–	(242)
	(3,803)	(5,398)

Corporation tax was calculated at 19 per cent (2020: 19 per cent) of the estimated taxable result for the year.

On 4 March 2021, the UK government announced an intention to increase the rate of corporation tax to 25 per cent with effect from 1 April 2023. It is currently expected that this will become substantially enacted during the 2022 financial year and hence the Group's deferred tax balance will be reassessed at that time.

9. Dividends

	2021 £000	2020 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2020 of 1.8p per share (2019: 1.8p)	5,523	5,493
Interim dividend for the year ended 31 March 2021 of 1.1p per share (2020: 1.1p)	3,372	3,358
	8,895	8,851

The directors are recommending a final dividend of 1.8p per share (2020: 1.8p). This, together with the interim dividend of 1.1p per share (2020: 1.1p), will result in a total dividend of 2.9p per share (2020: 2.9p), unchanged from the previous year.

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10. Earnings per share

Earnings per share is calculated as follows:

	2021 £000	2020 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent Company	**17,304**	20,415
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent Company	**19,757**	23,662

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**307,337,645**	305,428,749
Effect of dilutive potential ordinary shares	**112**	1,701,466
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**307,337,757**	307,130,215
Basic earnings per share	**5.63p**	6.68p
Underlying basic earnings per share	**6.43p**	7.74p
Diluted earnings per share	**5.63p**	6.64p
Underlying diluted earnings per share	**6.43p**	7.70p

Reconciliation of earnings	2021 £000	2020 £000
Net profit attributable to equity holders of the parent Company	**17,304**	20,415
Non-underlying items	**2,453**	3,247
Underlying net profit attributable to equity holders of the parent Company	**19,757**	23,662

Further details of non-underlying items are provided in note 5.

11. Goodwill

The goodwill balance was created on the following acquisitions:

	£000
On the DAM Structures acquisition in 2021 (provisional)	15,068
On the Harry Peers acquisition in 2019	16,002
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
	85,782

All of the acquisitions above are included in one reported segment (construction contracts) and the cash flows of the businesses are closely related. Testing for impairment is performed at the cash-generating unit ('CGU') level, which is the level at which management monitors goodwill for internal purposes.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may 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 year. 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.

The Group has prepared cash flows for the following year, which the directors believe capture the Group's most up-to-date 'realistic' forecast position following the outbreak of COVID-19, together with cash flows based on projections for the following two years which are derived from the Group's strategic plan. After this period, cash flows have been extrapolated using a growth rate of 1.5 per cent (2020: 1.5 per cent) which does not exceed the long-term growth rate for the relevant markets. The cash flow forecasts have been discounted using a pre-tax discount rate of 10 per cent (2020: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2021.

11. Goodwill continued

Management has analysed a number of sensitivity scenarios when performing the impairment reviews, including a two per cent reduction in operating margin and a two per cent increase in discount rate. None of those scenarios resulted in an impairment to goodwill. Management considers that no reasonably possible change in the key assumptions would cause the goodwill to fall below its carrying value at 31 March 2021.

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
Cost			
At 1 April 2019	–	1,033	1,033
Additions	8,796	–	8,796
At 1 April 2020	8,796	1,033	9,829
Additions	4,750	351	5,101
At 31 March 2021	**13,546**	**1,384**	**14,930**
Amortisation			
At 1 April 2019	–	1,033	1,033
Charge for the year	1,421	–	1,421
At 1 April 2020	1,421	1,033	2,454
Charge for the year	2,842	4	2,846
At 31 March 2021	**4,263**	**1,037**	**5,300**
Carrying amount			
At 31 March 2021	**9,283**	**347**	**9,630**
At 31 March 2020	7,375	–	7,375

The intangible assets acquired on acquisition arise as a result of applying IFRS 3, which requires the separate recognition of acquired intangibles from goodwill. The Group's acquired intangible assets are as follows:

	Customer relationships £000	Brands £000	Order book £000	Total £000
Cost				
At 1 April 2019	–	–	–	–
Additions	6,070	813	1,913	8,796
At 1 April 2020	6,070	813	1,913	8,796
Additions (provisional)	3,000	–	1,750	4,750
At 31 March 2021	**9,070**	**813**	**3,663**	**13,546**
Amortisation				
At 1 April 2019	–	–	–	–
Charge for the year	709	74	638	1,421
At 1 April 2020	709	74	638	1,421
Charge for the year	1,419	148	1,275	2,842
At 31 March 2021	**2,128**	**222**	**1,913**	**4,263**
Net book value				
At 31 March 2021	**6,942**	**591**	**1,750**	**9,283**
At 31 March 2020	5,361	739	1,275	7,375

Amortisation of acquired intangible assets is included in the consolidated income statement as part of operating costs and is classified as a non-underlying item (see note 5).

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13. Property, plant and equipment

	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 April 2019	66,756	41,895	9,082	227	117,960
Additions	1,519	3,266	1,447	229	6,461
Acquisition of subsidiary	2,172	284	79	10	2,545
Disposals	–	(639)	–	(66)	(705)
At 1 April 2020	70,447	44,806	10,608	400	126,261
Additions	247	5,075	823	130	6,275
Acquisition of subsidiary	–	1,103	37	–	1,140
Disposals	(30)	(360)	(53)	(140)	(583)
At 31 March 2021	**70,664**	**50,624**	**11,415**	**390**	**133,093**
Accumulated depreciation					
At 1 April 2019	6,041	25,838	2,028	67	33,974
Charge for the year	617	2,445	768	98	3,928
Disposals	–	(457)	–	(48)	(505)
At 1 April 2020	6,658	27,826	2,796	117	37,397
Charge for the year	676	2,622	1,034	102	4,434
Disposals	–	(303)	(21)	(112)	(436)
At 31 March 2021	**7,334**	**30,145**	**3,809**	**107**	**41,395**
Carrying amount					
At 31 March 2021	**63,330**	**20,479**	**7,606**	**283**	**91,698**
At 31 March 2020	63,789	16,980	7,812	283	88,864

14. Right-of-use assets

The Group leases many assets, including land and buildings, plant and equipment and motor vehicles, and these are presented as non-current assets. Information about leases for which the Group is a lessee is presented below:

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Total £000
Cost				
At 1 April 2019	–	–	–	–
Transitional adjustment	9,420	252	1,523	11,195
Additions	–	48	482	530
At 1 April 2020	**9,420**	**300**	**2,005**	**11,725**
Additions	792	48	458	1,298
Disposals	–	(47)	(159)	(206)
At 31 March 2021	**10,212**	**301**	**2,304**	**12,817**
Accumulated depreciation				
At 1 April 2019	–	–	–	–
Charge for the year	830	137	618	1,585
At 1 April 2020	830	137	618	1,585
Charge for the year	831	85	653	1,569
Disposals	–	–	(145)	(145)
At 31 March 2021	**1,661**	**222**	**1,126**	**3,009**
Balance at 31 March 2021	**8,551**	**79**	**1,178**	**9,808**
Balance at 31 March 2020	8,590	163	1,387	10,140

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15. Interests in JVs and associates

The Group has an interest in an associated company and two joint ventures as follows:

	Holding %	Class of capital
Associated companies:		
Fabsec Limited — development of fire beam	25.0	Ordinary
Joint ventures:		
JSW Severfield Structures Limited — structural steelwork serving the Indian market	50.0	Ordinary
Construction Metal Forming Limited — Manufacturer of cold rolled metal products	50.0	Ordinary

In 2008, a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited 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.

Construction Metal Forming Limited is registered in Chepstow in the United Kingdom. During the current year, the Group invested £2,444,000 (2020: £nil) in the joint venture to support the expansion of the production facilities in Wales (which was matched by our joint venture partner, Studwelders Composite Floor Decks Ltd).

The Group did not make any further investments in either JSW Severfield Structures Limited or Fabsec Limited during the year (2020: £nil).

Please refer to note 3 of the Company accounts for the registered addresses.

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 1 April 2019	5,326	19,009	24,335
Profit retained	–	2,355	2,355
At 1 April 2020	5,326	21,364	26,690
Unrecovered loss (net)	–	(344)	(344)
Investments made during the year	–	2,444	2,444
At 31 March 2021	**5,326**	**23,464**	**28,790**

The Group's share of the uncovered loss (net)/retained profit for the year of JVs and associates is made up as follows:

Share of results	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	Total £000
2021	**–**	**(697)**	**353**	**(344)**
2020	–	2,190	165	2,355

15. Interests in JVs and associates continued

Summarised financial information in respect of the Group's JVs and associates is as follows:

	Fabsec Limited £000	JSW Severfield Structures Limited £000	CMF Limited £000	2021 £000	2020 £000
Current assets	1,139	59,352	9,877	70,368	85,222
Non-current assets	2	30,590	10,053	40,645	38,856
Current liabilities	(73)	(56,921)	(5,973)	(62,967)	(79,032)
Non-current liabilities	(2,239)	(2,698)	(7,167)	(12,104)	(5,961)
Net assets	**(1,171)**	**30,323**	**6,790**	**35,942**	**39,085**
Group's share of net (liabilities)/assets	(293)	15,162	3,395	18,264	19,810
Goodwill	–	–	5,326	5,326	5,326
Investment	–	–	2,444	2,444	–
Impact of foreign exchange on share of net assets	–	2,068	–	2,068	942
Accounting policy alignment	293	374	21	688	612
Carrying amount of interest in JVs and associates	**–**	**17,604**	**11,186**	**28,790**	**26,690**
Revenue	192	48,866	24,055	73,113	129,792
Depreciation and amortisation	(15)	(1,747)	(77)	(1,839)	(2,015)
Net finance expense	–	(3,401)	(84)	(3,485)	(2,908)
Taxation	–	465	(151)	314	(1,546)
Profit after tax	–	(1,395)	707	(688)	4,710
Group's share of profit after tax	**–**	**(697)**	**353**	**(344)**	**2,355**

There were no contingent liabilities or capital commitments (2020: none) associated with the Group's JVs and associates.

16. Inventories

	2021 £000	2020 £000
Raw materials and consumables	5,980	4,993
Work-in-progress	4,251	1,863
	10,231	6,856

17. Construction contracts

	2021 £000	2020 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in contract assets, trade and other receivables	56,541	62,254
Amounts due to construction contract customers included in trade and other payables	–	(1,179)
	56,541	61,075
Contract costs incurred plus recognised profits less recognised losses to date	496,720	340,125
Less: progress billings received	(440,179)	(279,050)
	56,541	61,075

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18. Contract assets, trade and other receivables

Current assets	2021 £000	2020 £000
Amounts due from construction contract customers (note 17):		
Trade receivables and other	35,885	33,206
Contract assets	16,288	29,048
Total	52,173	62,254
Other receivables	6,212	5,360
Prepayments and accrued income	7,331	5,344
Amounts due from JVs and associates	2,131	1,654
	67,847	74,612

Non-current assets	2021 £000	2020 £000
Trade receivables and other	4,368	–
	4,368	–

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 31 days (2020: 46 days). No interest is charged on receivables.

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

Before accepting any new customer, the Group uses an external credit rating agency 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. The Group's executive risk committee reviews situations where adequate credit insurance on the Group's customers cannot be purchased in the present economic climate as required. The Group has rigorous procedures in place for monitoring and obtaining settlement of retentions in a prompt manner. Overdue retentions at 31 March 2021 were £nil (2020: £150,000).

19. Trade and other payables

Current liabilities	2021 £000	2020 £000
Trade creditors	44,092	46,886
Other taxation and social security	2,839	5,495
Other creditors and accruals	29,628	29,507
Payments in advance (note 17)	–	1,179
Amounts owed to JVs and associates	1,244	1,299
	77,803	84,366

Current other creditors and accruals in the current and prior years include the outstanding purchase consideration for CMF Limited of £500,000 (2020: £1,000,000), which is payable in the next year, subject to certain conditions beyond the Group's control.

Non-current liabilities	2021 £000	2020 £000
Other creditors and accruals	10,639	–
	10,639	–

Non-current other creditors and accruals in the current year reflects the outstanding purchase consideration for DAM Structures, which is payable over a five-year period, subject to certain conditions beyond the Group's control.

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

The average credit period taken for trade purchases, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 45 days (2020: 54 days).

During the year, VAT payments of £3,277,000 were deferred but were fully repaid by March 2021.

20. Deferred tax assets and 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:

	2021 £000	2020 £000
Deferred tax liabilities	**(8,895)**	(8,166)
Deferred tax assets	**4,734**	4,157
	(4,161)	(4,009)

Deferred tax is disclosed in the balance sheet as a deferred tax liability in the current and prior years.

	Excess capital allowances £000	Acquired intangible assets £000	Retirement benefit obligations £000	Trading losses £000	Other temporary timing differences £000	Total £000
At 1 April 2019	(5,458)	–	3,394	153	722	(1,189)
Changes in accounting policy	–	–	–	–	215	215
(Charge)/credit to income statement	(996)	270	205	60	(408)	(869)
On acquisition of subsidiary	(311)	(1,671)	–	–	–	(1,982)
Charge to other comprehensive income	–	–	(48)	–	(136)	(184)
At 1 April 2020	(6,765)	(1,401)	3,551	213	393	(4,009)
(Charge)/credit to income statement	(177)	540	(231)	7	67	206
On acquisition of subsidiary	(189)	(903)	–	–	–	(1,092)
Charge to other comprehensive income	–	–	932	–	(198)	734
At 31 March 2021	**(7,131)**	**(1,764)**	**4,252**	**220**	**262**	**(4,161)**

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21. Business combinations

Summary of acquisition

On 26 February 2021, the Company acquired 100 per cent of the share capital of DAM Structures Limited ('DAM Structures'), an innovative steel fabrication company. The board believes that DAM Structures is an attractive acquisition opportunity. It is profitable, cash generative, operates in complementary market sectors with strong growth potential (including propping, railway and steel piling) and offers the opportunity to broaden and deepen existing and new customer relationships in the construction and railway sectors. DAM Structures is highly regarded by its clients and presents a number of opportunities for further profitable growth.

The provisional net consideration of £23.0m comprises:

	£000
Gross initial cash consideration	16,994
Provisional completion payment	918
Contingent consideration	3,709
Deferred consideration	6,930
Gross consideration	**28,551**
Net cash acquired	(5,505)
Net consideration	**23,046**

Acquisition consideration

DAM Structures was acquired for an initial gross consideration of £16,994,000, including cash and cash equivalents of £5,505,000, which has been funded by a combination of Group cash reserves and a new term loan.

In addition, a maximum deferred consideration of £7,000,000 is payable in cash in April 2022. An additional performance-based contingent consideration is also in place which could further increase the purchase price by up to £8,000,000, if certain work-winning targets in the railway and steel piling sectors are achieved over a five-year period, ending in April 2026.

The contingent consideration has been recorded at its provisional fair value of £3,709,000, which represents management's current assessment of the amount likely to be paid of £6,000,000 (out of the maximum £8,000,000), discounted at DAM Structures' cost of capital of 18.5 per cent.

The provisional fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	£000
Non-current assets	
Property, plant and equipment	1,990
Current assets	
Inventories	2,235
Contract assets, trade and other receivables	10,141
Cash and cash equivalents	5,521
	17,897
Total assets	**19,887**
Current liabilities	
Trade and other payables	(9,989)
Current tax liabilities	(86)
	(10,075)
Non-current liabilities	
Deferred tax liabilities	(1,079)
Total liabilities	**(11,154)**
Net assets	**8,733**
Net cash acquired	(5,505)
Net identifiable assets acquired	**3,228**
Identified intangible assets	4,750
Goodwill	15,068
Net assets acquired	**23,046**

Provisional goodwill of £15,068,000 represents both existing and new end user customers (including core fabrication and rail), which were not recognised separately in accordance with IFRS 3 (Revised) 'Business Combinations', the ability and skill of DAM's employees and management, know-how, and the quality of the services provided (none of which qualify for recognition as a separate intangible asset under IFRS 3). The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Analysis of amounts disclosed in the cash flow statement in connection with the Group's acquisitions:

	£000
Gross initial cash consideration	16,994
Net cash acquired	(5,505)
Net initial cash consideration – DAM Structures	**11,489**
Contingent consideration – Harry Peers	6,000
Total cash outflow - investing activities	**17,489**

Acquisition-related costs of £689,000 were fully expensed in the period to 31 March 2021 as non-underlying operating costs (see note 5).

The acquired business contributed revenues of £3,944,000 and profit after tax of £212,000 to the Group for the period from 26 February 2021 to 31 March 2021.

22. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst optimising 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.

The Group monitors capital using the following indicators:

i) Gearing ratio

	2021 £000	2020 £000
Borrowings	**(20,750)**	(28,125)
Cash and cash equivalents	**24,983**	44,338
Unamortised debt arrangement fees	**128**	177
Net funds	**4,361**	16,390
Equity	**190,929**	183,675
Net debt to equity ratio	**N/A**	N/A

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

The Group excludes IFRS 16 lease liabilities from its measure of net funds/debt as they are excluded from the definition of net funds/debt as set out in the Group's borrowing facilities.

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22. Financial instruments continued

ii) Return on capital employed

Underlying operating profit divided by the average of opening and closing capital employed. Capital employed is defined as shareholders' equity after adding back retirement benefit obligations (net of tax), acquired intangible assets and net funds.

	2021 £000	2020 £000
Underlying operating profit		
Underlying operating profit (before JVs and associates)	**25,470**	26,978
Share of results of JVs and associates	**(344)**	2,355
	25,126	29,333
Capital employed:		
Shareholders' equity	**190,929**	183,675
Cash and cash equivalents	**(24,983)**	(44,338)
Borrowings	**20,750**	28,125
Net funds (for ROCE purposes)	**(4,233)**	(16,213)
Acquired intangible assets	**(9,283)**	(7,375)
Retirement benefit obligations (net of deferred tax) (note 30)	**18,127**	15,137
	195,540	175,224
Average capital employed	**185,382**	170,939
Return on capital employed	**13.6%**	17.2%

Categories of financial instruments

	Carrying value	
	2021 £000	2020 £000
Financial assets		
Cash and cash equivalents	**24,983**	44,338
Trade receivables and other (note 18)	**40,253**	33,206
Derivative financial instruments	**1,049**	–
Financial liabilities		
Trade creditors (note 19)	**(44,092)**	(46,886)
Other creditors and accruals (note 19)	**(40,267)**	(29,507)
Lease liabilities (note 22)	**(11,109)**	(11,231)
Derivative financial instruments	**–**	(1,135)

The Group's financial instruments consist of borrowings, cash, unamortised debt arrangement fees, items that arise directly from its operations and derivative financial instruments. Cash and cash equivalents, trade and other receivables and trade and other payables generally have short terms to maturity. For this reason their carrying values approximate to fair value. The Group's borrowings relate principally to amounts drawn down against its revolving credit facility, the carrying amounts of which approximate to their fair values by virtue of being floating rate instruments.

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 consolidated financial statements.

22. 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 March 2021 were £11,502,000 (2020: £7,717,000).

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 18. Where credit insurance is difficult to acquire, the executive risk committee determines the appropriate exposure for the Group to take with a customer.

Consideration of potential future events is taken into account when deciding when, and how much, to impair the Group's contract assets and trade receivables. The Group does not expect to report credit losses which would materially impact the income statement. In recent reporting periods credit losses in the income statement have been immaterial. In addition, the Group takes out credit insurance for the majority of the Group's debt profile.

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 18.

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 financing facilities 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.

The Group has a £25,000,000 revolving credit facility ('RCF') with HSBC Bank and Yorkshire Bank, which matures in October 2023. As part of the Harry Peers and DAM Structures acquisitions, new amortising term loans of £14,000,000 and £12,000,000, respectively, were established as amendments to the existing RCF. These loans, for which £20,750,000 remained outstanding at 31 March 2021, also mature in October 2023. The RCF remains subject to three financial covenants, interest cover (>4x) and net debt to EBITDA. The facility continues to include an accordion facility of £20,000,000, which allows the Group to increase the aggregate available borrowings to £45,000,000 at the Group's request. The facility is subject to certain covenants, including the cover of interest costs, the ratio of net debt to EBITDA and the ratio of cash flow to debt service.

As at 31 March 2021, £25,000,000 (2020: £10,000,000) of this facility was not drawn but available. Up to £10,000,000 of this facility is available by way of an overdraft.

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22. Financial instruments continued

In accordance with IFRS 7, the following tables detail the Group's remaining contractual maturity for its trade creditors and other creditors and accruals and provide a reconciliation of liabilities arising from financing activities.

		Maturity analysis					
	Carrying value £000	Less than 3 months £000	3 months to 1 year £000	1–2 years £000	2–5 years £000	5+ years £000	Total £000
Liabilities – 2021							
Trade and other payables	**84,358**	**65,688**	**7,852**	**6,468**	**4,350**	**–**	**84,358**
Financial liabilities — leases	**11,109**	**675**	**1,068**	**1,288**	**2,423**	**5,655**	**11,109**
Borrowings	**20,750**	**1,475**	**4,425**	**5,900**	**8,950**	**–**	**20,750**
	116,217	**67,838**	**13,345**	**13,656**	**15,723**	**5,655**	**116,217**
Liabilities – 2020							
Trade and other payables	76,393	66,416	9,781	196	–	–	76,393
Financial liabilities — leases	11,231	375	1,127	1,317	2,341	6,071	11,231
Borrowings	28,125	15,000	4,375	3,500	5,250	–	28,125
	115,749	81,791	15,283	5,013	7,591	6,071	115,749

	Financial liabilities	
	Leases £000	Borrowings £000
As at 1 April 2020	11,231	28,125
Changes from financing activities		
Proceeds from borrowings	–	12,000
Repayment of borrowings	–	(19,375)
Repayment of finance leases	(1,710)	–
Increase in lease liabilities	1,588	–
As at 31 March 2021	**11,109**	**20,750**

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 certain 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	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Euro	**(8,329)**	(4,879)	**28,589**	24,123
US dollar	**(32)**	(9)	**5**	15
	(8,361)	(4,888)	**28,594**	24,138

22. Financial instruments continued

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 per cent 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 year-end for a 10 per cent change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of 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	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Profit or loss and equity	**3**	(1)	**(252)**	641

At present, the Group's translation exposure to the Indian rupee via its Indian joint venture is not significant. 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.

The Group uses forward foreign currency contracts to hedge currency risk associated with expected future sales or purchases for which the Group has firm commitments. The terms of the forward foreign currency contracts are negotiated to match the terms of the commitments. During the year, the Group has applied cash flow hedge accounting to these forward foreign currency transactions. As at 31 March 2021, derivatives designated as cash flow hedges were an asset of £1,049,000 (2020: liability of £1,135,000) and recognised total gains of £1,950,000 (2020: losses of £1,813,000) in equity and gains of £234,000 (2020: losses of £84,000) in profit and loss in the year.

At 31 March 2021, the Group had forward exchange contracts of 20.0m euros (2020: 29.4m euros) at an average exchange rate of €1.127/£ (2020: €1.146/£) which mature within 12 months of the year-end.

Interest rate risk management

The Group is exposed to interest rate risk as described under the market risk 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 period. A 0.5 per cent 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 per cent higher and all other variables were held constant, the Group's profit for the year ended 31 March 2021 and the Group's equity at that date would decrease by £104,000 (2020: £66,000). If the £25,000,000 facility is fully utilised the exposure increases by £125,000. This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

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23. 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 board directors and certain members of the executive committee) and selected senior employees will participate in the scheme. These awards will, under normal circumstances, vest subject to continued service and the achievement of performance conditions over a three-year period. Further details are given in the directors' remuneration report on pages 129 to 140. The Group recognised a total charge of £1,167,000 (2020: £834,000) relating to its performance share plan and sharesave scheme.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £593,000 for the year (2020: £516,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.60 per share. Three outstanding awards had been granted to 31 March 2021:

During the year ended 31 March 2019 the remuneration committee granted 2,224,808 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2018 to 31 March 2021. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2021	% of award vesting
Equal to less than 7.88p	0%
Equal to 9.75p or better	100%
Between 7.88p and 9.75p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.84*
Exercise price	nil
Expected volatility (using historic performance)	37%
Risk-free rate	0.8%
Dividend	3.0p
Actual life	three years

* Granted on 20 June 2018.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £nil (2020: £nil).

During the period ended 31 March 2020, the remuneration committee granted 2,861,509 ordinary shares of 2.5p each at £nil value. The vesting of these awards was dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2019 to 31 March 2022. The following vesting schedule applies:

Underlying EPS performance for year ending 31 March 2022	% of award vesting
Equal to less than 8.41p	0%
Equal to 10.39p or better	100%
Between 8.41p and 10.39p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.71*
Exercise price	nil
Expected volatility (using historic performance)	54%
Risk-free rate	0.5%
Dividend	3.0p
Actual life	three years

* Granted on 20 June 2019.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £nil (2020: £nil).

23. Share-based payments continued

During the year ended 31 March 2021 the remuneration committee granted 2,983,529 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 1 April 2020 to 31 March 2023. The following vesting schedule applies:

Underlying EPS performance for year ended 31 March 2023	% of award vesting
Equal to less than 6.57p	0%
Equal to 8.36p or better	100%
Between 6.57p and 8.36p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.69*
Exercise price	nil
Expected volatility (using historic performance)	96%
Risk-free rate	0.2%
Dividend	3.0p
Actual life	three years

* Granted on 17 December 2020.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £593,000 (2020: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2021 Number	2020 Number
Outstanding at the beginning of the year	**6,292,368**	7,084,240
Granted during the year	**2,983,529**	2,861,509
Lapsed during the year	**(149,481)**	(41,605)
Vested during the year	**(1,696,739)**	(3,611,776)
Outstanding at the end of the year	**7,429,677**	6,292,368

Save As You Earn share option plan ('Sharesave')

The plan, which was established in 2015 and expires in 2025, is open to all employees on the UK payroll. Participants may elect to save up to £500 per month over the life of the plan under three-yearly savings schemes, each with a separate savings contract.

Under the 2017 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2017 Sharesave scheme in 2020, these options become exercisable for a period of six months. A charge of £nil (2020: £135,000) was recognised in the current period in relation to the 2017 Sharesave scheme.

Under the 2018 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2018 Sharesave scheme in 2021, these options will become exercisable for a period of six months. A charge of £185,000 (2020: £183,000) was recognised in the current period in relation to the 2018 Sharesave scheme.

Under the 2020 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 20 per cent from the then market price. At the end of the 2020 Sharesave scheme in 2023, these options will become exercisable for a period of six months. A charge of £389,000 (2020: £nil) was recognised in the current period in relation to the 2020 Sharesave scheme.

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23. Share-based payments continued

Reconciliation of share awards outstanding under the Sharesave plan are as follows:

Save As You Earn option plan ('Sharesave')

	2021 Number	2020 Number
Outstanding at the beginning of the year	**3,551,400**	4,224,200
Granted during the year	**4,259,136**	–
Lapsed during the year	**(1,471,382)**	(642,605)
Vested during the year	**(596,634)**	(30,195)
Outstanding at the end of the year	**5,742,520**	3,551,400

24. Share capital

	2021 £000	2020 £000
Issued and fully paid:		
308,221,462 ordinary shares of 2.5p each (2020: 305,928,087 ordinary shares of 2.5p each)	**7,706**	7,648

The ordinary shares carry no right to fixed income. There are no share options outstanding as at 31 March 2021 (2020: nil).

25. Other reserves

	Share-based payment reserve £000	Capital redemption reserve £000	Hedge accounting reserve £000	Currency translation reserve £000	Total £000
At 1 April 2019	2,889	139	775	16	3,819
Share-based payments	(570)	–	–	–	(570)
Losses taken to equity on cash flow hedges	–	–	(1,403)	–	(1,403)
Reclassification adjustments on cash flow hedges	–	–	(410)	–	(410)
Exchange difference on foreign operations	–	–	–	(34)	(34)
At 1 April 2020	2,319	139	(1,038)	(18)	1,402
Share-based payments	78	–	–	–	78
Gains taken to equity on cash flow hedges	–	–	1,699	–	1,699
Reclassification adjustments on cash flow hedges	–	–	251	–	251
Exchange difference on foreign operations	–	–	–	34	34
At 31 March 2021	**2,397**	**139**	**912**	**16**	**3,464**

The movement in the share-based payment reserve represents the share-based payment charge of £1,167,000 (2020: £834,000) offset by amounts recycled to retained earnings of £531,000 (2020: £307,000) for share awards vested in the year and £557,000 (2020: £1,097,000) for tax paid on these awards. There was no reserves movement in the current or prior year for sharesave schemes.

26. Net cash flow from operating activities

	2021 £000	2020 £000
Operating profit from continuing operations	**22,331**	27,039
Adjustments:		
Depreciation of property, plant and equipment (note 13)	**4,434**	3,928
Loss/(gain) on disposal of other property, plant and equipment	**40**	(68)
Movement in contingent consideration (note 5)	**(736)**	–
Amortisation of intangible assets (note 12)	**2,846**	1,421
Movements in pension scheme (note 30)	**(1,215)**	(1,029)
Share of results of JVs and associates (note 15)	**344**	(2,355)
Share-based payments	**610**	(311)
Right-of-use asset depreciation (note 14)	**1,569**	1,585
Operating cash flows before movements in working capital	**30,223**	30,210
(Increase)/decrease in inventories	**(1,140)**	2,059
Decrease/(increase) in receivables	**12,551**	(12,174)
(Decrease)/increase in payables	**(11,645)**	7,898
Cash generated from operations	**29,989**	27,993
Tax paid	**(4,640)**	(6,013)
Net cash flow from operating activities	**25,349**	21,980

	2021 £000	2020 £000
Cash generated from operations	**29,989**	27,993
Proceeds on disposal of other property, plant and equipment	**104**	267
Purchases of land and buildings	**(247)**	(1,519)
Purchases of other property, plant and equipment	**(6,097)**	(4,945)
	23,749	21,796
Underlying operating profit (before JVs and associates)	**25,470**	26,978
Operating cash conversion	**93%**	81%

27. Analysis of net funds

	2021 £000	2020 £000
Borrowings	**(20,750)**	(28,125)
Cash and cash equivalents	**24,983**	44,338
Unamortised debt arrangement fees	**128**	177
Net funds (pre-IFRS 16)	**4,361**	16,390
IFRS 16 lease liabilities	**(11,109)**	(11,231)
Net (debt)/funds (post-IFRS 16)	**(6,748)**	(5,159)

The Group excludes IFRS 16 lease liabilities from its measure of net funds/debt as they are excluded from the definition of net debt as set out in the Group's borrowing facilities.

28. Contingent liabilities

Liabilities have been recorded for the directors' best estimate of uncertain contract positions, known legal claims, investigations and legal actions in progress. The Group takes legal advice as to the likelihood of the success of claims and actions and no liability is recorded where the directors consider, based on that advice, that the action is unlikely to succeed, or that the Group cannot make a sufficiently reliable estimate of the potential obligation. The Group also has contingent liabilities in respect of other issues that may have occurred, but where no legal or contractual claim has been made and it is not possible to reliably estimate the potential obligation (see note 2).

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure any bank overdrafts and loans of all other Group companies. At 31 March 2021 this amounted to £nil (2020: £nil). The Group has also given performance bonds in the normal course of trade.

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29. Lease arrangements

The Group as lessee

The Group leases certain items of plant and machinery and vehicles which are either leased over a short-term or are for low value assets, whose total future minimum lease rentals are as follows:

	2021 £000	2020 £000
Minimum lease rentals due:		
— Within one year	21	22
— After one year and within five years	7	28
	28	50

The Group as lessor

The Group's property rental operating leases expired at the end of 2018 financial year, as a result; no property rental income was earned on owned properties in the current year (2020: £nil).

30. Retirement benefit obligations

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 £3,203,000 (2020: £2,866,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2021, contributions of £447,000 (2020: £476,000) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit schemes

The Group has a defined benefit scheme which is now closed to new members and no defined benefit membership rights will accrue under the scheme. The Group, through trustees, operate the defined benefit scheme. The trustees are responsible for establishing the investment strategy and ensuring that there are sufficient assets to meet the cost of the current and future benefits.

The scheme exposes the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The present values of the scheme liabilities are calculated using a discount rate determined by reference to corporate bond yields; if the return on scheme assets is below this rate, it will create a plan deficit. The Group holds a significant proportion of growth assets (bonds, gilts and equities) to leverage the return generated by the scheme.
Interest risk	A decrease in the corporate bond interest rate will increase the scheme liabilities, although this will be partially offset by an increase in the return on the scheme's assets.
Longevity risk	The present values of the scheme liabilities are calculated by reference to the best estimate of the mortality of scheme participants which reflect continuing improvements in life expectancy. An increase in the life expectancy of the scheme participants will increase the scheme's liabilities.
Salary risk	The present values of the defined benefit scheme liabilities are calculated by reference to the future salaries of scheme participants. As such, an increase in the salary of the scheme participants will increase the scheme's liabilities.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation was carried out at 5 April 2020 by Mr Alex Pearse, 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.

	2021 %	2020 %
Key assumptions used:		
Discount rate	1.9	2.3
Inflation (RPI)	3.4	2.8
Future pension increases	3.2	2.7

30. Retirement benefit obligations continued

When considering mortality assumptions, a life expectancy to 86 at age 65 has been used for the year ended 31 March 2021 (2020: 85). For the year ended 31 March 2021, the Group has updated the mortality assumption following analysis undertaken by the Scheme Actuary for the triennial funding valuation of the Scheme as at 5 April 2020 from 100 per cent of the SAPS Series 3 Base Tables with a +2 year age rating to 120 per cent of the SAPS Series 3 Base Tables. This update is based on analysis of the membership by pension amounts carried out for the 5 April 2020 Scheme funding valuation and allowing for occupational factors. In addition, the allowance for future improvements has been updated from the CMI 2018 model to the CMI 2019 model. The Group has updated its long-term rate of mortality improvements assumption from 1.50 per cent for males and 1.25 per cent for females to 1.25% p.a. for both males and females as improvements in life expectancies have continued to slow in recent years, even before allowing for the impact of the COVID-19 pandemic.

Impact on scheme liabilities of changes to key assumptions:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.25%	Decrease/increase by 4.3%
Rate of mortality	Reducing by 10%	Increase by 3.1%
Price inflation	Increase/decrease by 0.25%	Increase/decrease by 3.3%

The above sensitivity analysis is based on isolated changes in each assumption while holding all other assumptions constant; however, in practice this is unlikely to occur. In the current year, the methodology for calculating the sensitivity of the obligation to changes in the mortality assumption has changed to be consistent with the updated mortality assumptions adopted as a result of analysis performed for the 5 April 2020 triennial valuation. In the previous year, the sensitivity to changes in mortality was calculated based on a one-year increase in longevity, whereas this year it has been calculated based on the rate of mortality reducing by 10 per cent. Both methods show how the defined benefit obligation would have been affected by changes in mortality that were reasonably possible at that date.

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

	2021 £000	2020 £000
Interest cost	989	1,076
Interest income	(578)	(615)
	411	461

The charge for the year has been included in operating costs. 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 £24,837,000 (2020: £19,931,000).

The actual return on scheme assets was a gain of £2,800,000 (2020: loss of £478,000).

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

	2021 £000	2020 £000
Present value of defined benefit obligations	(50,316)	(43,843)
Fair value of scheme assets	27,937	25,155
	(22,379)	(18,688)

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

	2021 %	2020 %
Equities	24.9	12.9
Bonds and gilts	22.8	32.4
Cash	8.7	5.8
Property	7.7	8.7
LDI funds	26.0	28.9
Other	9.9	11.3
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately 16 per cent of bonds have a sub-investment grade credit rating (BB+ or lower) and approximately 79 per cent of gilts are index-linked, with 21 per cent being fixed.

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30. Retirement benefit obligations continued

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

	2021 £000	2020 £000
At start of year	**(43,843)**	(45,561)
Interest cost	**(989)**	(1,076)
Actuarial (losses)/gains	**(7,128)**	1,348
Benefits paid	**1,644**	1,446
At end of year	**(50,316)**	(43,843)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were losses of £1,230,000 (2020: losses of £312,000), losses of £6,317,000 (2020: gains of £2,667,000) and gains of £419,000 (2020: losses of £1,007,000) respectively.

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

	2021 £000	2020 £000
At start of year	**25,155**	25,589
Interest income	**578**	615
Actuarial gains/(losses)	**2,222**	(1,093)
Employer contributions	**1,626**	1,490
Benefits paid	**(1,644)**	(1,446)
At end of year	**27,937**	25,155

The Group expects to contribute £210,000 (2020: £128,000) per month to its defined benefit pension scheme in the year to 31 March 2022.

History of experience of gains and losses:

	2021	2020	2019	2018	2017
Experience gains/(losses) on scheme assets (£000)	**2,222**	(1,093)	651	(488)	420
Percentage of scheme assets	**8.0%**	(4.3%)	2.5%	(2.0%)	1.7%
Experience losses/(gains) on scheme liabilities (£000)	**419**	(1,007)	16	200	347
Percentage of the present value of scheme liabilities	**0.8%**	(2.2%)	0.0%	0.5%	0.8%
Total amount recognised in the consolidated statement of comprehensive income (£000)	**(4,906)**	255	(3,702)	3,606	(7,412)
Percentage of the present value of scheme liabilities	**(9.8%)**	0.6%	(8.1%)	8.6%	(16.2%)

The weighted average period over which benefits are expected to be paid, or the duration of the liabilities, is currently 17 years.

31. Related party transactions

The remuneration of the directors is provided in the audited part of the directors' remuneration report on page 130.

In addition to the board of 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:

	2021 £000	2020 £000
Short-term employee benefits	1,704	2,089
Contributions into pension schemes	119	186
	1,823	2,275

Short-term employee benefits include salary, bonus, social security contributions, 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 23 and relates to executive directors, members of the executive committee and selected other members of the senior management team.

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 Fabsec Limited ('Fabsec') at a cost of £48,000 (2020: £48,000). The amount due to Fabsec at 31 March 2021 was £117,000 (2020: £117,000).

During the year, the Group has contracted with and purchased services from Construction Metal Forming Limited ('CMF') amounting to sales of £41,000 (2020: £nil) and purchases of £11,830,000 (2020: £11,003,000). The amounts due from and to CMF at 31 March 2021 was £1,362,000 (2020: £1,275,000) and £740,000 (2020: £1,170,000) respectively.

During the year, the Group contracted with and purchased services from MET Structures Limited, amounting to sales of £2,311,000 (2020: £1,894,000) and purchases of £777,000 (2020: £484,000). MET Structures shares common directors with the Group. The amount due from and to MET Structures at 31 March 2021 was £51,000 (2020: £363,000) and £nil (2020: £281,000) respectively.

During the year, the Group incurred additional operating costs in relation to the day-to-day running of its Indian joint venture ('JSSL') of £391,000 (2020: £416,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2021 was £770,000 (2020: £379,000). During the year, the Group contracted with and purchased services from JSSL amounting to £73,000 (2020: £198,000). The amount due to JSSL at 31 March 2021 was £387,000 (2020: £12,000).

FIVE YEAR SUMMARY

YEAR ENDED 31 MARCH 2021

	2021 £000	2020 £000	2019 £000	2018 £000	2017 £000
Results					
Revenue	**363,254**	327,364	274,917	274,203	262,224
Underlying* operating profit (before JVs and associates)	**25,470**	26,978	23,256	22,866	19,614
Underlying* profit before tax	**24,331**	28,621	24,711	23,512	19,845
Non-underlying items before tax	**(3,224)**	(2,808)	–	(1,333)	(1,790)
Profit attributable to equity holders of Severfield plc	**17,304**	20,415	20,162	18,146	15,329
Assets employed					
Non-current assets	**230,076**	203,783	163,033	154,510	148,292
Net current assets	**22,247**	21,068	33,135	33,147	28,391
Non-current liabilities	**(61,394)**	(41,176)	(21,161)	(18,660)	(22,526)
Net assets	**190,929**	183,675	175,007	168,997	154,157
Key statistics					
Earnings per share:					
Basic — underlying*	**6.43p**	7.74p	6.65p	6.38p	5.53p
Basic	**5.63p**	6.68p	6.65p	6.05p	5.13p
Diluted — underlying*	**6.43p**	7.70p	6.58p	6.29p	5.49p
Diluted	**5.63p**	6.64p	6.58p	5.97p	5.09p
Dividends per share	**2.90p**	2.90p	2.80p	2.60p	2.30p
Dividend cover (times) — underlying* basis	**2.2**	2.7	2.5	2.6	2.4
Share price — high	**79.90p**	96.00p	88.20p	88.00p	83.50p
— low	**51.20p**	57.20p	64.60p	59.50p	43.75p

* The basis of stating results on an underlying basis is set out on page 06.

FINANCIAL CALENDAR

Preliminary announcement of full-year results	16 June 2021
Publication of annual report	30 July 2021
Annual general meeting	1 September 2021
Announcement of interim results (provisional)	23 November 2021

COMPANY BALANCE SHEET

YEAR ENDED 31 MARCH 2021

	Note	2021 £000	2020 £000
Fixed assets			
Tangible assets	2	**56,635**	57,162
Intangible assets		**71**	–
Right-of-use asset		**23**	63
Investments	3	**152,710**	128,808
		209,439	186,033
Current assets			
Debtors — amounts falling due within one year	4	**90,381**	73,358
Cash at bank and in hand		**668**	15,608
		91,049	88,966
Current liabilities			
Trade and other payables	5	**(132,602)**	(115,454)
Financial liabilities – borrowings		**(5,900)**	(19,375)
Financial liabilities – leases		**(20)**	(55)
		(138,522)	(134,884)
Non-current liabilities			
Trade and other payables	5	**(10,639)**	–
Financial liabilities – borrowings		**(14,850)**	(8,750)
		(25,489)	(8,750)
Total assets less liabilities		**136,477**	131,365
Capital and reserves			
Share capital		**7,706**	7,648
Share premium		**87,658**	87,292
Other reserves		**2,496**	2,418
Profit and loss account		**38,617**	34,007
Equity and total shareholders' funds		**136,477**	131,365

The Company reported a profit for the financial year ended 31 March 2021 of £12,974,000 (2020: £12,400,000).

The financial statements were approved by the board of directors on 16 June 2021 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

Severfield plc
Registered in England No.1721262

COMPANY STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2021

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2020	**7,648**	**87,292**	**2,418**	**34,007**	**131,365**
Total comprehensive income for the year	**–**	**–**	**–**	**12,974**	**12,974**
Ordinary shares issued*	**58**	**366**	**–**	**–**	**424**
Equity settled share-based payments	**–**	**–**	**78**	**531**	**609**
Dividends paid	**–**	**–**	**–**	**(8,895)**	**(8,895)**
At 31 March 2021	**7,706**	**87,658**	**2,496**	**38,617**	**136,477**

* The issue of shares represents the shares allotted to satisfy the 2017 Performance Share Plan award which vested in June 2020 and the 2017 Sharesave schemes.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2019	7,600	87,254	2,989	30,195	128,038
Changes in accounting policy	–	–	–	4	4
Restated total equity at 1 April 2019	7,600	87,254	2,989	30,199	128,042
Total comprehensive income for the year	–	–	–	12,400	12,400
Ordinary shares issued*	48	38	–	–	86
Equity settled share-based payments	–	–	(571)	259	(312)
Dividends paid	–	–	–	(8,851)	(8,851)
At 31 March 2020	7,648	87,292	2,418	34,007	131,365

* The issue of shares represents the shares allotted to satisfy the 2016 Performance Share Plan award which vested in June 2019 and the 2017 and 2018 Sharesave schemes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related notes, related party transactions and comparative period reconciliations. In addition, disclosures in relation to share capital (note 24), share premium and dividends (note 9) have not been repeated here as there are no differences to those provided in the consolidated financial statements.

Except as noted below, the Company's accounting policies are consistent with those described in the consolidated financial statements of Severfield plc.

Profit of the parent company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts.

Audit fees

The Company has taken the exemption granted under SI 2008/489 not to disclose non-audit fees paid to its auditor.

Employees

Directors' remuneration and details of their share-based payments are disclosed in the audited part of the directors' remuneration report on page 130 and in notes 6 and 23 to the consolidated financial statements.

Investments

Investments in subsidiaries, joint ventures and associates are stated at cost less, where appropriate, provisions for impairment.

Amounts owed by subsidiary undertakings

The Company holds intercompany loans with subsidiary undertakings which are repayable on demand. None of these loans are past due nor impaired. The carrying value of these loans approximates their fair value.

Intercompany guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

2. Tangible fixed assets

	Freehold and long leasehold land and buildings £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2020 and 31 March 2021	63,288	467	33	63,788
Accumulated depreciation				
At 1 April 2020	6,400	198	28	6,626
Charge for the year	484	41	2	527
At 31 March 2021	**6,884**	**239**	**30**	**7,153**
Carrying amount				
At 31 March 2021	**56,404**	**228**	**3**	**56,635**
At 31 March 2020	56,888	269	5	57,162

The Company's freehold and long leasehold land and buildings include those which are occupied and used by some of the Company's subsidiary undertakings. The rental income from these assets in the current year was £600,000 (2020: £600,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

3. Investments

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures and associated undertakings, including their country of incorporation, as at 31 March 2021 is disclosed below. All of these had a reporting period ended 31 March 2021, except where indicated.

Name of undertaking	Incorporated in	Class of capital
100% owned by Severfield plc		
Severfield (UK) Limited	England and Wales	Ordinary
Severfield (NI) Limited(i)	Northern Ireland	Ordinary
Atlas Ward Holdings Limited	England and Wales	Ordinary
Severfield (Products & Processing) Limited	England and Wales	Ordinary
Severfield Europe B.V.(ii)	Netherlands	Ordinary
Harry Peers & Co Limited	England and Wales	Ordinary
Severfield Reeve Projects Limited	England and Wales	Ordinary
Severfield Reeve International Limited	England and Wales	Ordinary
Severfield Mauritius Limited(iii)	Mauritius	Ordinary
DAM Structures Limited	England and Wales	Ordinary
100% owned by Harry Peers & Co Limited		
Harry Peers Steelwork Limited	England and Wales	Ordinary
100% owned by Atlas Ward Holdings Limited		
Severfield (Design & Build) Limited	England and Wales	Ordinary
100% owned by Severfield Reeve Projects Limited		
Leeds 27 Limited	England and Wales	Ordinary
50% owned by Severfield plc		
Construction Metal Forming Limited (formerly Composite Metal Flooring Limited)*(iv)	England and Wales	Ordinary
50% owned by Severfield Mauritius Limited		
JSW Severfield Structures Limited(v)	India	Ordinary
25% owned by Severfield plc		
Fabsec Limited*(vi)	England and Wales	Ordinary

* Companies with a reporting period ended 31 December 2020.
‡ Unless otherwise stated, the registered office address for each of the above is Severs House, Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire, YO7 3JN.

Registered office classification key:
(i) Fisher House, Main Street, Ballinamallard, Enniskillen, Co Fermanagh, BT94 2FY
(ii) Gildelaan 11 2e Verdiepin, 4761 BA Zevenbergen
(iii) Felix House, 24 Dr. Joseph Rivière Street, Port Louis, Mauritius
(iv) Millennium House, Severn Link Distribution Centre, Newhouse Farm Industrial Estate, Mathern, Chepstow, NP16 6UN
(v) 401 Grande Palladium, 4th Floor, 175 CST Road, Kalina, Santacrus East, Mumbai, India, 400098
(vi) Unit 561 Avenue E East, Thorp Arch Estate, Wetherby, LS23 7DB

	2021 £000	2020 £000
Investment in subsidiaries	119,783	98,325
Investment in joint ventures	32,927	30,483
	152,710	128,808

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

3. Investments continued

Investment in subsidiaries

	£000
Cost	
At 1 April 2020	118,525
Additions	23,046
Liquidated entities	(1,588)
At 31 March 2021	**139,983**
Provision for impairment	
At 1 April 2020 and 31 March 2021	**(20,200)**
Net book value	
At 31 March 2021	**119,783**
At 31 March 2020	98,325

Investment in joint ventures

In 2008, a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited 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. During a prior year, the Company invested a further £4,229,000 in the joint venture to fund the expansion of the production facility in Bellary. During a prior year, the Company invested £5,506,000 in JSSL to support the full repayment of the joint venture's term debt of c.£11,000,000 in June 2017. The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

The Company invested £2,444,000 in CMF Limited during the year (2020: £nil) to fund the expansion of the existing production facilities.

	£000
Cost	
At 1 April 2020	30,483
Additions	2,444
At 31 March 2021	32,927

4. Debtors — amounts falling due within one year

	2021 £000	2020 £000
Other debtors	**1,979**	1,362
Amounts owed by subsidiary undertakings	**79,514**	62,987
Amounts owed by JVs and associates	**48**	–
Corporation tax recoverable	**8,840**	9,009
	90,381	73,358

5. Creditors

Current liabilities	2021 £000	2020 £000
Other creditors and accruals	**6,948**	11,490
Amounts owed to subsidiary undertakings	**120,128**	98,853
Amounts owed to JVs and associates	**473**	–
Deferred tax liability (note 6)	**5,053**	5,111
	132,602	115,454

Non-current liabilities	2021 £000	2020 £000
Trade and other payables	**10,639**	–
	10,639	–

6. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	2021 £000	2020 £000
Deferred tax liabilities	**(5,236)**	(5,285)
Deferred tax assets	**183**	174
	(5,053)	(5,111)

Deferred tax — movement for the year

	Excess capital allowances £000	Other temporary differences £000	Total £000
At 1 April 2019	(4,716)	572	(4,144)
Current year credit	(569)	(261)	(830)
Charge to equity	–	(137)	(137)
At 31 March 2020	(5,285)	174	(5,111)
Current year credit	49	9	58
Charge to equity	–	–	–
At 31 March 2021	**(5,236)**	**183**	**(5,053)**

7. Contingent liabilities

The Company has provided an unlimited multilateral guarantee to secure any bank overdrafts and loans of all other Group companies. At 31 March 2021 these amounted to £nil (2020: £nil).

SHAREHOLDER NOTES

ADDRESSES AND ADVISERS

Registered office and headquarters

Severfield plc
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Operational businesses

Severfield (UK) Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Severfield (Design & Build) Limited
Ward House
Sherburn
Malton
North Yorkshire
YO17 8PZ

Severfield (NI) Limited
Fisher House
Ballinamallard
Enniskillen
Co Fermanagh
BT94 2FY

Severfield (Products & Processing) Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

Severfield Europe B.V.
Gildelaan 11 2e Verdiepin
4761 BA Zevenbergen
The Netherlands

Harry Peers & Co Limited
Elton Street
Bolton
Lancashire
BL2 2BS

DAM Structures Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

JSW Severfield Structures Limited
Office No. 302, Naman Centre
3rd Floor, Plot No. C-31
Bandra Kurla Complex
Bharat Nagar, Bandra East
Mumbai 400 051
India

Construction Metal Forming Limited
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Monmouthshire, NP4 0JJ

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