Severfield

Severfield plc
Annual report and accounts
for the year ended 31 March 2020

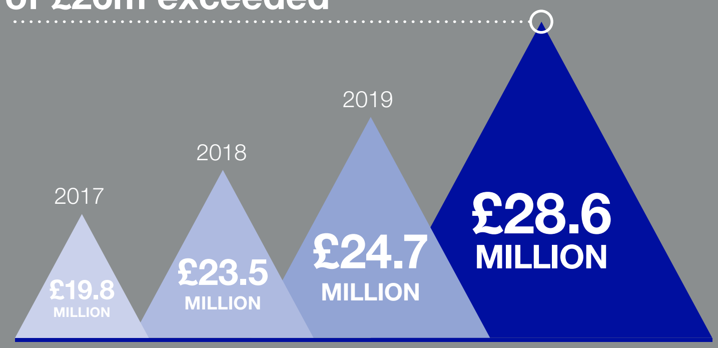
DELIVERING SUSTAINABLE GROWTH FROM A STRONG FOUNDATION

Severfield

SUSTAINABLE GROWTH IN NUMBERS

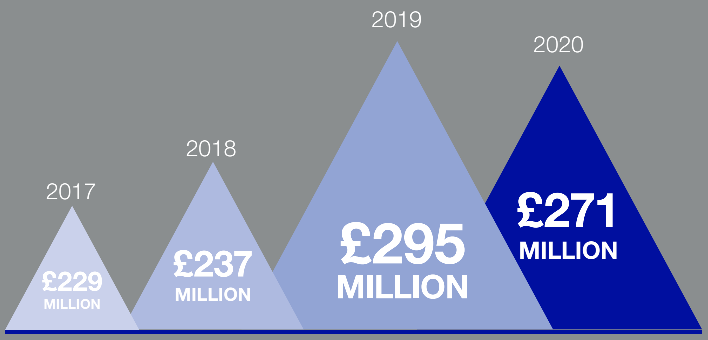
Delivering on our promises

2020 strategic profit target of £26m exceeded



Read more about **our operating performance** on pages 50 to 57

Strong UK and Europe order book



Severfield

WELCOME TO OUR ANNUAL REPORT 2020

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.

"WE CONTINUE TO MAKE PROGRESS IN EXECUTING OUR STRATEGY WHICH IS UNDERPINNED BY OUR MARKET-LEADING POSITIONS, OUR STRONG BALANCE SHEET AND THE QUALITY OF OUR WORKFORCE AND SENIOR LEADERSHIP TEAMS."

John Dodds
Non-executive chairman

Read more about our **chairman's view** on pages 12 and 13

"WE ARE CONTINUING TO DELIVER ON OUR STRATEGIC OBJECTIVES AND, IN ACHIEVING AN UNDERLYING PROFIT BEFORE TAX OF £28.6M, WE HAVE SURPASSED OUR 2020 STRATEGIC PROFIT TARGET."

Alan Dunsmore
Chief executive officer

Read more about **our strategy** on pages 36 to 44

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

Contents

LORD'S CRICKET GROUND - COMPTON AND EDRICH STANDS REDEVELOPMENT

This redevelopment sees the traditional 'home of cricket' modernised, with the existing stands, originally supplied and erected by the Severfield Group in 1991, replaced by two larger, more accessible stands either side of the iconic J.P Morgan Media Centre.

Location
St John's Wood, London

Client
Marylebone Cricket Club

Main contractor
ISG Construction

Engineer
Buro Happold

Architect
Wilkinson-Eyre Architects

Tonnage
2,300

Completion date
November 2020

The project

The development is part of Marylebone Cricket Club's ('MCC') ongoing masterplan to redevelop the world-famous and historic Lord's Cricket Ground. The new Compton and Edrich stands are both three-tiered structures complete with feature canopies above the upper tiers. Together they will accommodate c.11,500 spectators and be linked at the second-tier level by a connecting walkway overlooking the Nursey Ground. The walkway will be 40m long by 3.5m-wide and supported on a single row of 7.5m-high columns.

The newly developed stands will increase the ground's overall capacity by c.2,500 seats, with three per cent of all seating being accessible for wheelchairs and those with restricted mobility. In addition to vastly improving spectators' sightlines and reducing the amount of restricted view seats, the upgraded stands

will also feature modern corporate and hospitality areas. The Group is responsible for the project's steelwork connection design, detailing and supply and erection of 2,300 tonnes of structural steel and steel stairs together with the erection of precast components including the terrace units and vomitory walls. Construction on this phase of the MCC masterplan began in August 2019, after the final international cricket match of the season and the Group began steel erection in December 2019 and continued during the off-season to March 2020. The erection of the canopy is planned for late 2020, after the completion of the 2020 cricket season in October.

Among the largest elements within each of the stands are the main supporting columns, which are typically large box sections fixed with Macalloy bar anchor assemblies. Positioned in the middle of each stand, the columns sit towards the back of the lower-tier and provide support for the 7m-wide cantilevering seating area of the second-tier as well as the underside of the uppermost seating level. The project involved highly complex fabrication in order to resolve steel with precast geometry, as sections of the precast concrete terrace units are set to a parabolic curve.

GOOGLE HEADQUARTERS, KING'S CROSS

This project involved the design and construction of the purpose built 11-storey structure as a new headquarters for Google, the first wholly owned and designed Google building outside the US.

Location
King's Cross, London

Client
Google UK

Contract manager
Lendlease Construction (Europe)

Engineer
AKT II

Architect
Bjarke Ingels Group/ Heatherwick Studio

Tonnage
16,441

Completion date
June 2021

The project

The new steel-framed, structurally glazed building is being developed from the ground up and will contribute to the Knowledge Quarter and King's Cross's growing knowledge-based economy. The completed building's width will vary from 60m-wide to the north to just 20m-wide to the south over its 330m length and will provide c.650,000 square feet of office space, including the roof structure which will accommodate a garden area, amenity space, a multi-use games area and a 25m pool. The structure is being developed around five concrete cores containing lift shafts, from which the floors of the frame attach and carry a proportion of the overall weight. The frame also incorporates over-arching roof trusses which, via a series of hangers, carry the weight of the extremities of each level of the structure.

The Group is responsible for the member frame connection design, fabrication and erection of c.16,000 tonnes of fire-protection treated structural steel. The on-site erection programme includes a temporary works scheme and sequential installation of precast concrete floor planks and cross-laminated floor planks. Furthermore, the scope of the project includes leading-edge protection including specialist units in the riser shafts. Construction began in the 2019 financial year and is expected to be completed in mid-2021.

The project also included deployment of Severfield's well-known safety product, 'Seversafe' edge protection. This consists of the handrail system in place, vertical debris netting and safety fans installed near to the perimeter of the structure.

DATA CENTRE, REPUBLIC OF IRELAND

This project involved the construction of a new large data centre located in Clonee, Dublin for a global technology company.

Location
Clonee, Dublin

Contract manager
Mace

Engineer
Arup

Architect
SNH Architects

Tonnage
9,300

Completion date
November 2020

The project

This project is a state-of-the-art data centre facility and is the latest building in a development of cloud storage centres for one of the world's largest technology companies. The scale of the overall development in the Republic of Ireland is substantial, with the entire site occupying 480 acres and will be one of the fastest and most cutting-edge cloud-based data centres in the world, storing and retrieving information for millions of social media users. This project occupies c.90,000 square metres within this development – the equivalent of almost 18 football pitches.

The Group is very familiar with the development of data centres in Ireland, having recently completed the design, fabrication and construction of a similar, smaller facility, providing 5,600 tonnes of structural steel, in April 2018. This current project is exactly double the size of the

previous project with a total of eight data halls and an accompanying administration block. The building is a single storey beam and column braced steel-frame structure with a roof that supports a plant gantry platform with 17,500 square metres of galvanised open-grid grating with associated construction handrails. Also installed on the roof is 68,000 square metres of metal decking incorporating 78 plenum pods weighing up to 20 tonnes, which were pre-assembled at ground level and lifted into location on the roof of the building with large 750-tonne mobile cranes.

The design elements for this project included connection design, temporary works design and detailed BIM coordination with more than 300 items of electrical and mechanical equipment. Early in the project lifecycle, the Group's project teams were involved in pre-construction stages, which created a platform for influencing key aspects of the design.

This project consists of an extremely challenging design, fabrication and erection programme. Design and detailing began on the project in spring 2019 with a drawing office team of over 30 skilled colleagues working on the project at its peak. The on-site erection programme was based on 12 steel crews erecting up to 1,000 tonnes of steel per week.

EUROPEAN SPALLATION SOURCE, LUND

The latest addition to Europe’s scientific research capability, this cutting-edge facility will host the most powerful linear proton accelerator ever built.

Location
Lund, Sweden

Client
European Spallation Source

Main contractor
Skanska ESS Construction HB

Architect
Henning Larsen

Tonnage
3,000

Completion date
September 2020

The project

Situated near the university town of Lund, Sweden, the Group are building a cross-discipline research facility based on the world’s most powerful neutron source. European Spallation Source (‘ESS’) is a collaboration of 13 European countries, intended to yield discoveries that could benefit the fields of energy, technology and the environment. Designed to house world-leading scientific equipment as well as up to 3,000 researchers, ESS Lund is a testament to the power of collaboration in which the Group is proud to be a part.

The first major project for the Group’s Netherlands-based European business, Severfield Europe B.V, this project showcases the Group’s expertise in the continent. The scope of the project is to supply, fabricate and erect c.3,000 tonnes of structural steel, roof plates, cladding, filigree floors as well as the erection of

precast concrete elements including concrete stairs, wide slab floors and precast hollow walls. The steel fabrication for this large contract is mainly being provided from our Dalton facility, together with certain approved subcontractors, both in the UK and in Europe. This has required close organisation of an international supply chain and workforce to ensure that the project runs smoothly.

Given the extreme sensitivity of the instrumentation to be contained within the facility, the building must be extraordinarily sturdy and resistant to movement. The project design had to take account of the effects of high winds and seismic activity, resulting in specific requirements during the construction phase for extremely heavy welding. Plate steel up to 80mm thick was required for some aspects including a crane beam in the high bay building.

Not only will ESS become one of the world's most modern research facilities, it will also be one of the most sustainable and energy smart research facilities. The facility will use as little energy as possible and all energy will be from renewable energy sources and the waste heat will be recycled.

ONE BRAHAM

Construction of a high specification commercial office building in central London, adjacent to Aldgate Tower.

Location
Aldgate, London

Client
FT Squared

Main contractor
McLaughlin & Harvey

Engineer
Arup

Tonnage
3,600

Completion date
February 2020

The project

Located on the edge of the City of London, this 18-storey commercial office building, adjacent to Aldgate Tower, represents phase two of a prestigious Aldgate redevelopment scheme and provides c.325,000 square feet of open-plan office space. The building was developed as an open plan architectural space for commercial letting with two of the lower levels being designed as public areas. Overall, the building adopts a contemporary office feel with exposed soffits throughout. Much of the completed steel frame will also be left exposed and so significant care has been taken with the connection details.

The Group's scope included the supply and erection of beam and column steelwork together with metal decking, fire protection, stairs and open type flooring. The Group provided decorative fire protected columns and beams with an

open architectural soffit, with the underside of the metal decking on display along with two steel staircases spanning the entire height of the building. The ground floor is a double-height space, accommodating the entrance lobby, while the first floor, which is set back to create this large space, accommodates a cantilevering walkway overlooking the entrance. Large portions of the floor are suspended from the underside of the second floor via a series of Macalloy hangers and steel plate hangars to form recessed low level façades.

A key feature of this complex project is the architectural finish to the building, with all steelwork and metal decking being on display upon completion. This necessitated that the finish on all parts of the structure was to an exceptional standard. The project encountered operational challenges such as parts of the lower floor steelwork being outside of the cladding line. This required thermal breaks to be incorporated where the steel penetrates the cladding line in order to meet safety standards. The Group also supplied 'Seversafe' edge protection, safety fans and the 'Seversafe' offload system.

A SNAPSHOT OF WHAT WE DO AND HOW WE DO IT

OUR STRUCTURAL FRAMEWORK

Why we exist, what we want to be, what we set out to achieve, how we will achieve our vision and what values define us.

Read about **our structural framework** on pages 4 and 5

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
JSW Severfield Structures – Mumbai, India
Construction Metal Forming – Monmouthshire

Read about **the scale of our operations** on pages 16 to 19

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 nine principal risks and uncertainties which have the potential to impact the Group's business model and strategy.

See **how we manage risk** on pages 74 to 86

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.

Safety, Sustainability, People and Community

See **building a sustainable business** on pages 64 to 73

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 26 to 33

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 page 22

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.

Read more about **corporate governance** on pages 98 to 108

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 46 to 49

Our structural framework

HOW WE DELIVER GROWTH FROM A STRONG FOUNDATION

Read more about **our strategy** on pages 36 to 44

01 Our vision

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.

02 Our mission

As ambitious, innovative leaders in a demanding and ever-developing industry, we will use our collective strengths and resources to build the capacity required to deliver the structures of the future.

03 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

04 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.

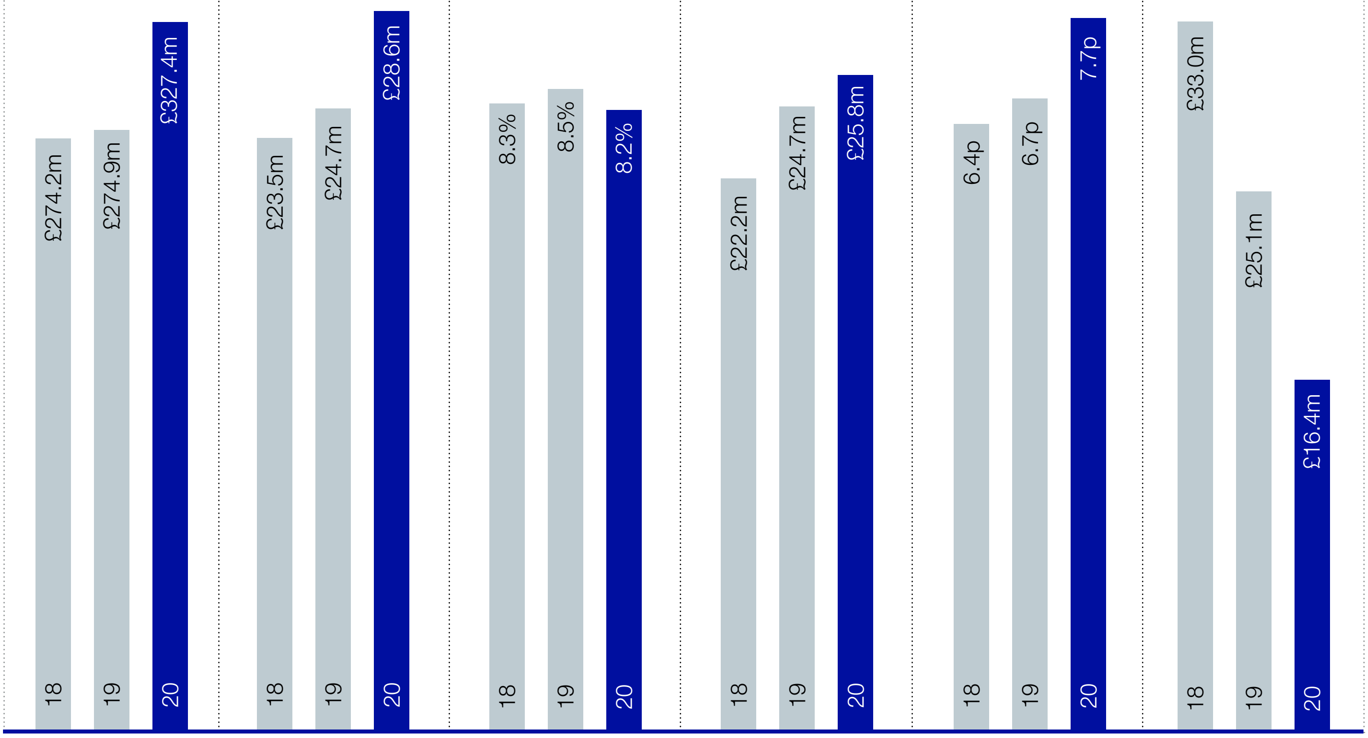
Commitment

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

Financial highlights

Revenue	Underlying* profit before tax	Underlying* operating margin	Profit before tax	Underlying* basic earnings per share	Net funds**
£327.4m	£28.6m	8.2%	£25.8m	7.7p	£16.4m



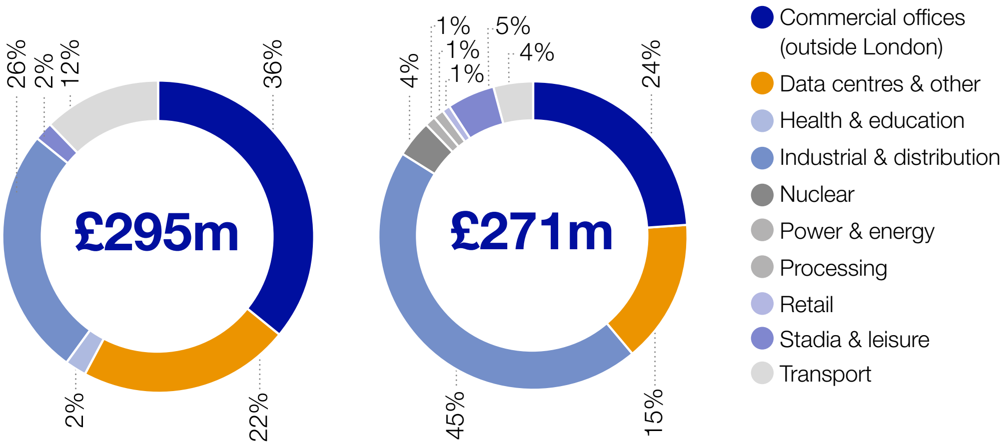
Read more about **our Group financials** on pages 146 to 195

Order book 2020

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

Our UK and Europe order book at June 2019

Our UK and Europe order book at June 2020



Operational highlights

STRATEGIC 2020 PROFIT TARGET ACHIEVED, GOOD CASH GENERATION AND A STRONG BALANCE SHEET

- Revenue up 19% to £327.4m (2019: £274.9m)
- Underlying* profit before tax up 16% to £28.6m (2019: £24.7m), ahead of strategic 2020 profit target of £26m
- Underlying* basic earnings per share up 15% at 7.7p (2019: 6.7p)
- Acquisition of Harry Peers for net initial cash consideration of £18.9m, contingent consideration of up to £7m payable in 2021
- Good cash generation resulting in year-end net funds (excluding IFRS 16 lease liabilities**) of £16.4m (2019: £25.1m), including the outstanding acquisition loan of £13.1m for Harry Peers
- Over 100 projects undertaken during the year in the UK, Ireland and continental Europe in diverse market sectors including industrial and distribution, data centres, commercial offices (both in London and the UK regions) and transport infrastructure
- UK and Europe order book of £271m at 1 June 2020 (1 November 2019: £323m), including £17.0m for Harry Peers – the expected reduction reflects revenue recognised in H2 on several large ongoing contracts
- Share of profit from Indian joint venture ('JSSL') up 80% at £2.2m (2019: £1.2m), reflecting both revenue growth and margin improvement
- India order book of £110m at 1 June 2020 (1 November 2019: £134m), expansion of the Bellary facility is now complete

Read more about our **Company financials** on pages 196 to 202

Read more about our **net funds** on page 190

"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."

Adam Semple
Group finance director

* Underlying results are stated before non-underlying items of £2.8m (2019: £nil) consisting of the amortisation of acquired intangible assets of £1.4m and acquisition-related expenses of £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.

Our response to COVID-19

Setting up the business to deal with the pandemic

In managing our response to COVID-19, 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. In March, we implemented our business continuity plans to minimise the impact of the pandemic on our operations. We established a crisis management team and facilitated home working where possible. We undertook a detailed analysis to establish what aspects of our operations would be affected and what we could and could not continue to do. During this early period, we scaled back operations for several days in order to allow us to undertake this assessment more effectively. We implemented strict COVID-19 measures in our factories and sites including enhanced levels of cleaning, additional hygiene facilities and social distancing. Daily video calls between our executive and senior leadership teams, communications team, health and safety, human resources and legal advisers ensured that our decision-making was well-informed and timed appropriately. A weekly call with the plc board ensured that board members were kept fully updated throughout.

During the outbreak we have seen the value to the business of our culture, and our people really came to the fore to enable us to continue to carry on trading as normally as possible. A key aspect of our business continuity plan is to communicate effectively with our colleagues. We issued regular communications with updates on the latest government advice including how this impacted our employees, our COVID-19 HR and safety policies, how to cope with certain mental health issues arising from the crisis itself and general advice on working from home.

Precautionary financial measures

We have a strong balance sheet position, however, in order to mitigate the financial impact of COVID-19 and protect our cash position during the current period of uncertainty in a manner that does not compromise our future plans for the Group, a number of precautionary actions have been implemented. These include the deferral of all non-essential and uncommitted capital expenditure, together with restrictions on discretionary operating expenditure, tight management of working capital and the deferral of tax payments (PAYE, NIC and VAT) and quarterly term loan repayments (due in March and June) until September 2020. Furthermore, prior to the year-end, we fully drew down all available amounts under our Revolving Credit Facility (£15m) to provide control over our own cash resources.

Outlook

When the immediate impact of COVID-19 has passed, the economy and our industry will enter a ‘new normal’ phase, but the timescale and duration for this is uncertain. At this early point in our financial year it is impossible to predict the full extent of the financial impact of COVID-19 on the 2021 outturn.

Notwithstanding this, to date we have coped well with the challenges presented by COVID-19. Our factories are operational and, after some temporary interruptions, all of the Group’s construction sites in the UK and Europe remain open. We have a UK and Europe order book of £271m, we are seeing an encouraging level of tendering and pipeline activity across the Group and we remain well placed to win work in the diverse range of market sectors in which we operate and across a wide client base. This provides us with extra resilience and the ability to increase our market share. We have a strong balance sheet, a cash-generative business model and with bank facilities agreed until October 2023, we are confident that we have sufficient cash and committed funding in place during this unprecedented period of uncertainty.

Building on our strong foundations

Our strategic pillars

Our progress since 2013 has helped us work towards our vision to be recognised as world-class leaders in structural steel. Each step is linked to a specific strategic pillar and collectively strengthens our foundations.

Growth

Clients

India

Operational excellence

People

April 2013

Completed a rights issue which raised £45m and recapitalised the business with a stabilised financial structure to secure the long-term future of the Group.

September 2013

Restructured the Group's three operating businesses into a single trading entity, Severfield-Watson Structures Ltd (now Severfield (UK) Ltd) and completion of a comprehensive management review and restructuring programme.

November 2013

Appointed Ian Lawson as chief executive officer.

During 2014

Development of a long-term Group strategy based on building a solid platform for continued growth in the UK and overseas and launched a comprehensive Group operational improvement programme.

October 2014

Established a new £25 million revolving credit facility until July 2019.

December 2014

The Group secured six new contracts, worth £43 million in total, including being appointed as the steelwork contractors for the expansion of Anfield stadium for Liverpool FC.

November 2015

Successfully completed our 50% investment in Construction Metal Forming Limited (previously Composite Metal Flooring Limited).

December 2015

Awarded the contract for the construction of the new stadium for Tottenham Hotspur FC.

January 2016

Set up the Severfield Foundation, a registered charitable organisation raising funds for, and offering assistance to, charitable bodies throughout the UK, mainly through the activities of Severfield employees.

March 2016

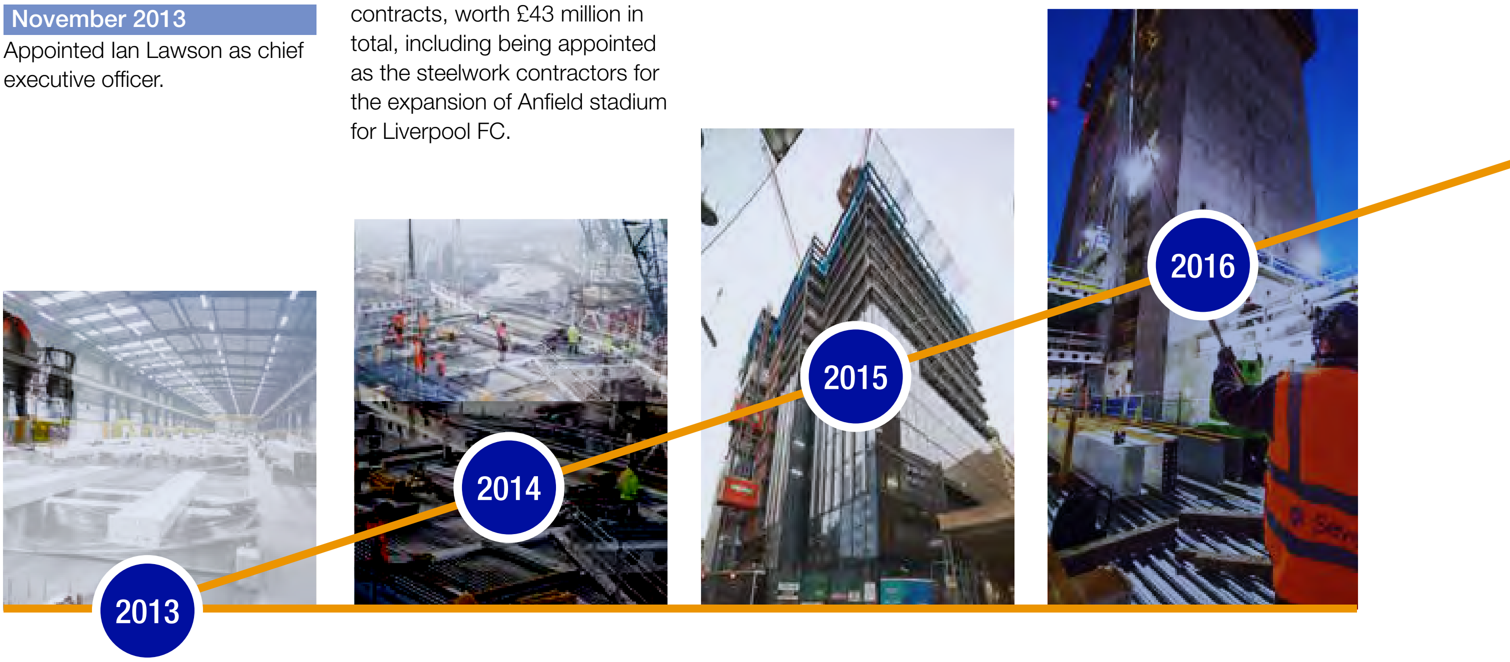
Awarded the contract to fabricate and construct the retractable roof for Wimbledon No.1 Court.

June 2016

Outlined the Group's new strategic target to double 2016 underlying profit before tax to £26 million by 2020.

November 2016

Secured six new contracts worth £72 million including being awarded the contract to design, fabricate and construct c.17,000 tonnes of structural steel for 22 Bishopsgate, London.



During 2017

Launched our business improvement programme, 'Smarter, Safer, more Sustainable' consolidating the Group's operational improvement projects, including improvements to business processes, use of technology and operating efficiencies.

April 2017

Incorporated Severfield Europe B.V. in the Netherlands, focussing on tailoring established UK offering for expansion into the European market.

July 2017

Completed the installation of a brand new £2 million state-of-the-art 'T & I' plate girder line at Severfield (UK)'s Lostock facility to significantly improve capability within the bridge market.

December 2017

Awarded the contract for Google Headquarters in King's Cross. Severfield to supply c.16,000 tonnes of structural steelwork services for the 11-storey building.

January 2018

Appointed Alan Dunsmore as chief executive officer. Reorganised factory operations in North Yorkshire, consolidating the steel fabrication at Sherburn and Dalton into the Dalton facility, making better use of our operational footprint in Yorkshire and driving further operational improvements.

April 2018

Trading commenced at Severfield (Products & Processing), the Group's new business venture in Sherburn to address smaller scale projects providing a one-stop shop to fabricators to source processed steel and ancillary products.

December 2018

Expansion of Bellary facility in India commences – expected to be completed towards the end of the 2020 financial year.

March 2019

Severfield Europe B.V. wins its first two contracts.

August 2019

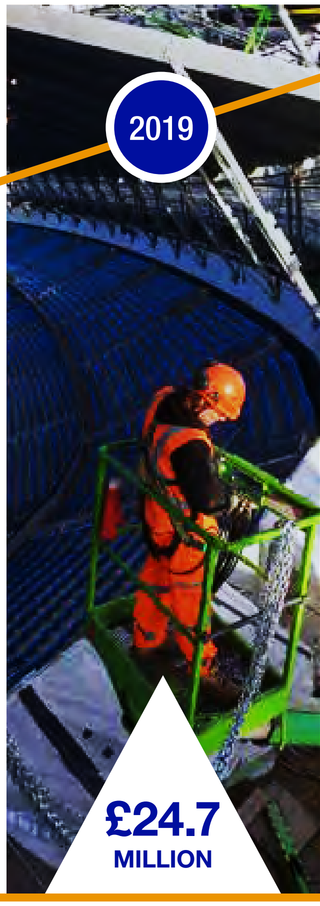
Appointed Louise Hardy as non-executive director.

October 2019

Completed the acquisition of Harry Peers & Co Limited, a leading full service steelwork business focussing on the nuclear, process industries and power generation sectors.

November 2019

Held our inaugural 'safety first' awards to celebrate positive safety behaviours and initiatives and environmental management by apprentices, other employees and teams within all of our businesses. Launched our new product ranges 'Severstor' and 'Seversilo'.



March 2020

The Group exceeded the 2020 strategic profit target, announced back in June 2016, of doubling underlying profit before tax to £26m.

Chairman's view

John Dodds
Non-executive chairman

WE CONTINUE TO MAKE PROGRESS IN EXECUTING OUR STRATEGY AND HAVE EXCEEDED OUR 2020 STRATEGIC PROFIT TARGET OF £26M.

John Dodds
Non-executive chairman

2020 was another year of strong progress for the Group. We have grown the business, exceeded our 2020 strategic profit target of £26m, have entered new markets through the acquisition of Harry Peers and have made further progress with our 'Smarter, Safer, more Sustainable' business improvement programme.

Group revenue for the year was £327.4m, an increase of 19 per cent on 2019, which has been achieved despite some challenging market conditions in 2020. We have also delivered another year of profit growth, with underlying* profit before tax increasing by 16 per cent to £28.6m, from £24.7m in 2019. This reflects a good operating performance from our core UK businesses, where margins have remained above 8 per cent, a contribution from the acquisition of Harry Peers, and strong profit growth from our Indian joint venture ('JSSL').

The strength of our balance sheet and cash generation have remained high priorities for us and our positive operating cash flow has enabled further capital investment in 2020, demonstrating our continued commitment to developing and improving the business. Year-end net funds were £16.4m which includes the outstanding acquisition loan for Harry Peers of £13.1m.

Unfortunately, after such an encouraging financial year in 2020, we are now faced with the continued uncertainty of the COVID-19 pandemic. Although we have seen some disruption to our operations as a result of the outbreak, all of our construction sites in the UK and Europe remain open and all of our factories are operational. Our primary focus is on the health, safety and wellbeing of all employees, clients and the wider public, together with protecting the financial strength of the Group. We have taken a number of precautionary actions to protect our cash position and, with our strong balance sheet, we are confident that we have sufficient resources in place for the foreseeable future. The diverse range of market sectors in which the Group operates also provides us with extra resilience during this unprecedented period of uncertainty.

Board changes

Louise Hardy joined the board as a non-executive director in September 2019. Louise has a wealth of relevant experience in the delivery of complex infrastructure projects and experience as a non-executive director of other publicly listed companies. We welcome Louise to the board, to which she has been a valuable addition.

Markets and strategy

The strong current year performance has been achieved in spite of challenging times. Whilst the conclusive outcome of the December 2019 General Election and the UK's departure from the European Union in January 2020 has provided some much-needed certainty to the political landscape, our future trading relationship with the EU remains unresolved. Unfortunately, we are also seeing the emerging headwinds from COVID-19. Despite this, our UK and Europe order book of £271m provides the Group with a strong future workload and we are encouraged by the current level of tendering and pipeline activity across the Group.

From a strategic perspective, we have exceeded our 2020 profit target of £26m which was set back in 2016, and we continue to deliver on our other strategic objectives. We have seen further growth in our revenue and profits, both in the UK and India, and continued investment in our people and facilities and in the expansion of our client base. The acquisition of Harry Peers, which is integrating well into the existing Group, gives us the opportunity to expand and extend our current capabilities into attractive complementary market sectors, broaden our market exposure and enhance our areas of expertise.

Our 'Smarter, Safer, more Sustainable' programme has continued to drive improvements to operational efficiencies and business processes, now with an increased focus on manufacturing efficiency. As part of our digital transformation initiative, we have overseen further technology enhancements in both our manufacturing and contracting operations. We have also implemented improvements to our supply chain, with our new supplier accreditation process, and have continued to invest in and streamline our factories, particularly at Dalton, which is increasingly operating as a fulfilment centre for the Group as a whole.

Dividends

The board is not currently recommending a final dividend (2019: 1.8p per share). Following a successful year, we would ordinarily expect to propose a final dividend in line with our progressive policy. However, given the wide range of potential profit and cash flow outcomes for the 2021 financial year, the board believes it is prudent to defer any dividend payment decisions until there is greater visibility on the impact of COVID-19.

India

JSSL has continued to grow in the year and has increased its profit by more than 80 per cent over the previous year. This reflects both revenue growth and higher operating margins driven by an improved mix of commercial work. The expansion of the Bellary facility is now complete.

COVID-19 is also impacting JSSL in the new financial year. Given the rapidly changing dynamics in the Indian economy, it is difficult to predict with any accuracy what the extent of this disruption will be on JSSL's profitability in 2021. Despite the ongoing uncertainty, JSSL has maintained an order book of £110m and their pipeline continues to include a number of commercial projects for key developers and clients with whom it has established strong relationships. We remain positive about the long-term development of the Indian market and the value creation potential of JSSL.

Safety and sustainability

The Group strategy continues to support health and safety as being at the forefront of everything we do, and the wellbeing of our people is a key priority of the board. This has been particularly important during the COVID-19 outbreak where we have continued to run our operations safely and in line with the appropriate guidelines.

Pleasingly, we have achieved our Group safety targets for the year. The Group's accident frequency rate ('AFR'), including our Indian joint venture, of 0.15, continues to outperform the industry average. We have also widened our safety measures to focus on the Group's injury frequency rate ('IFR'), to highlight minor injuries and to identify prevention measures. The Group's IFR has reduced year-on-year with targeted reductions in almost all areas of the business.

Recognising the importance of Environmental, Social, and Governance ('ESG') and sustainability, a new sustainability policy was published by our sustainability committee. We have made progress during the year in this area including switching to 100 per cent green electricity at our two largest production facilities, reducing our greenhouse gas ('GHG') emissions and maintaining our 'B' rating in the CDP (formerly the Carbon Disclosure Project) index. We continue to review ways to reduce our carbon footprint, working collaboratively with customers, industry and the supply chain.

People

The success of the Group depends on our people. On behalf of the board, I would like to thank our employees for their hard work and dedication during the past year and in the current challenging times for both them and their families.

Outlook

We continue to make progress in executing our strategy which is underpinned by our market-leading positions, our strong balance sheet and the quality of our workforce and senior leadership teams. The acquisition of Harry Peers is another step in the implementation of this strategy and will enhance our position as the UK's broadest structural steel services group.

Whilst the economic agenda is currently being dominated by COVID-19, we have a resilient business model, a strong order book and have now taken sensible, decisive actions to protect our employees, cash flows and liquidity, all of which give me confidence in the Group's ability to emerge successfully from the current crisis.

I am, today, announcing my retirement as chairman of the Group, with effect from 3 September 2020, when I will be handing over to Kevin Whiteman. It has been a privilege to serve as chairman since 2011 and I am immensely proud of the development of the Group over this period, which has been transformed into the diverse and very successful business it is today. I look forward to seeing Severfield go from strength to strength under the guidance of Kevin as chairman.

John Dodds
Non-executive chairman

17 June 2020

* The basis for stating results on an underlying basis is set out on page 7.

Read more about our **operating performance** on pages 50 to 57

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

Read more about our **financial performance** on pages 58 to 62

Read more about **our strategy** on pages 36 to 44

Read more about **building a sustainable business** on pages 64 to 73

OUR UNIQUE OFFERING

Our investment case

Focussed on leading customer service, supported by our scale and innovative thinking.

01 Client 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 a 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.

05 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.

06 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 focussed on delivering internal efficiency improvements to support the Group's operational efficiency and effectiveness.

07 Productivity and growth

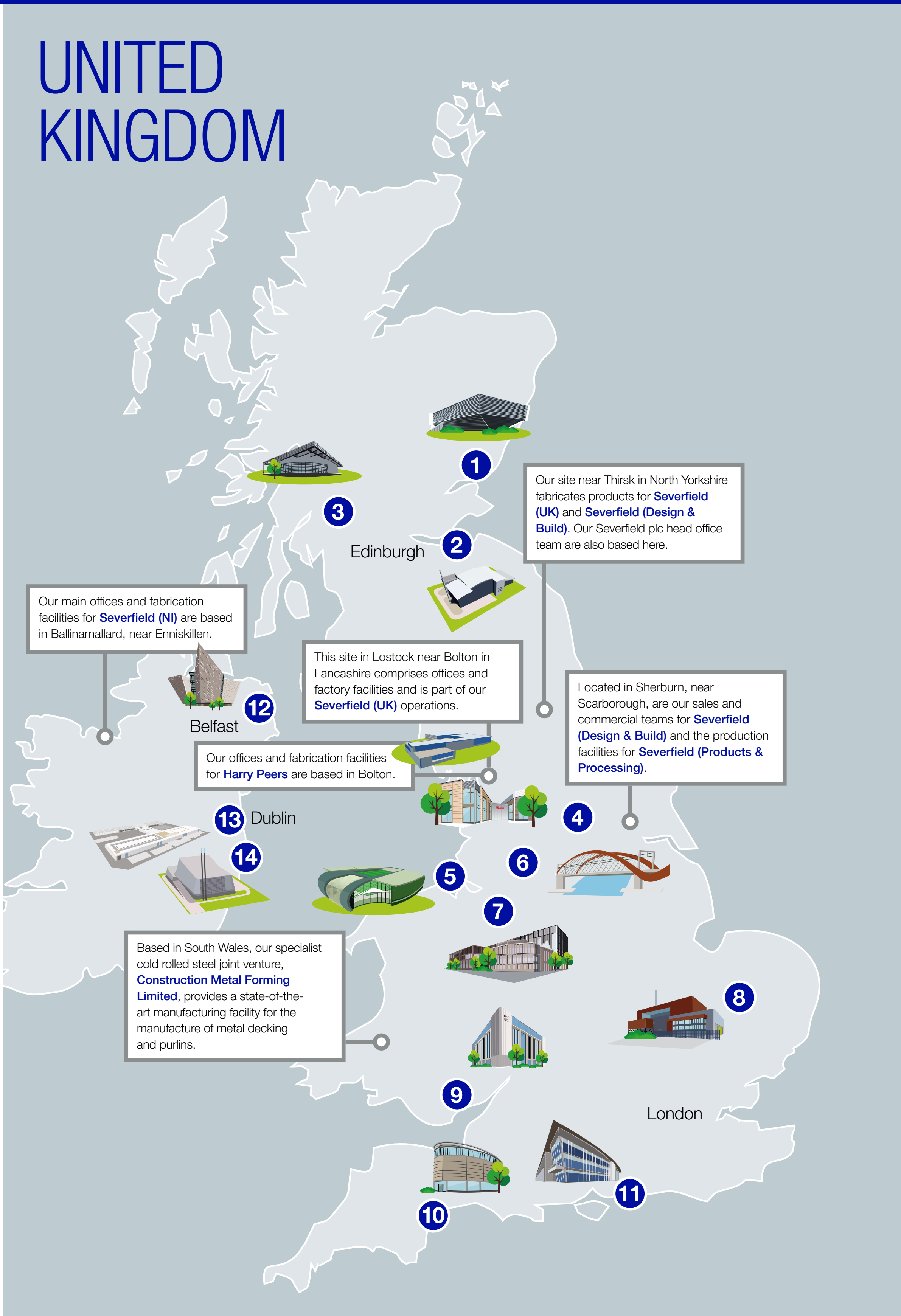
Our disciplined use of capital for investment in market-leading technology, plant and equipment leads to higher quality products with a shorter turnaround, increasing the productivity of our operations. Alongside our targeted strategies for growth and operational excellence, our business model illustrates 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.

Our projects

THE SCALE OF OUR OPERATIONS



EUROPE

GREATER LONDON

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. **St Giles Circus**
Commercial offices
17. **22 Bishopsgate**
Commercial offices
18. **Tottenham Hotspur**
Stadia and leisure
19. **South Bank Tower**
Commercial offices
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

Read more about **our operations in India** on pages 32 and 33

The scale of our operations

Operating across the Group's five 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 objective.

Our subsidiaries

Severfield (UK) Limited

Dalton,
North Yorkshire

c.550 employees

This facility boasts 10 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 Europe B.V.

We have continued to develop our European business, based in the Netherlands, to extend 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 (NI) Limited

c.300 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 (Products & Processing) Limited

c.40 employees

Severfield (Products & Processing) was launched at Sherburn in 2018. The company offers a one-stop shop for steel products and processing service using our extensive range of equipment and allows us to address smaller scale projects. During 2020, the company continued to expand its product range, including our new 'Severstor' and 'Seversilo' products.

Harry Peers & Co Limited

c.60 employees

The Group's recent acquisition, Harry Peers, is based in Bolton near the Group's existing 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 acquisition will extend our reach into attractive, complementary market sectors, broaden our exposure and enhance our expertise. 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.

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 fabrication lines, a plate (INDISEC®) line, five smaller welded beam lines, bit shops and a bay to 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 expansion of the Bellary facility, which has increased capacity from c.60,000 tonnes to c.90,000 tonnes, was completed during the year.

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 and the design and manufacture of steel purlins.

STRATEGIC REPORT

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 focussed 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.

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.

Key statistics

Underlying basic earnings per share
7.7p

£327.4m
Revenue from orders in 2020

£70.7m
paid in employee benefits in 2020

Reduction in greenhouse gas emissions to
29.8 tonnes of CO_2e/£m revenue

The markets we serve: The UK and Europe

BUILDING ON OUR MARKET SHARE FROM CONSTRUCTION ACTIVITIES

The Group's strategic focus in the UK and Europe is to continue to build on our market share from construction activities.

Marketplace

Market output for structural steelwork in the UK

856,000 tonnes

During the 2019 calendar year, the UK constructional steelwork market, as measured by the British Constructional Steelwork Association ('BCSA'), remained relatively stable at 856,000 tonnes, broadly in line with the previous year.

This is the third consecutive year in which the market has shown no significant change. 856,000 tonnes represents a UK constructional steelwork market totalling approximately £1.7 billion.

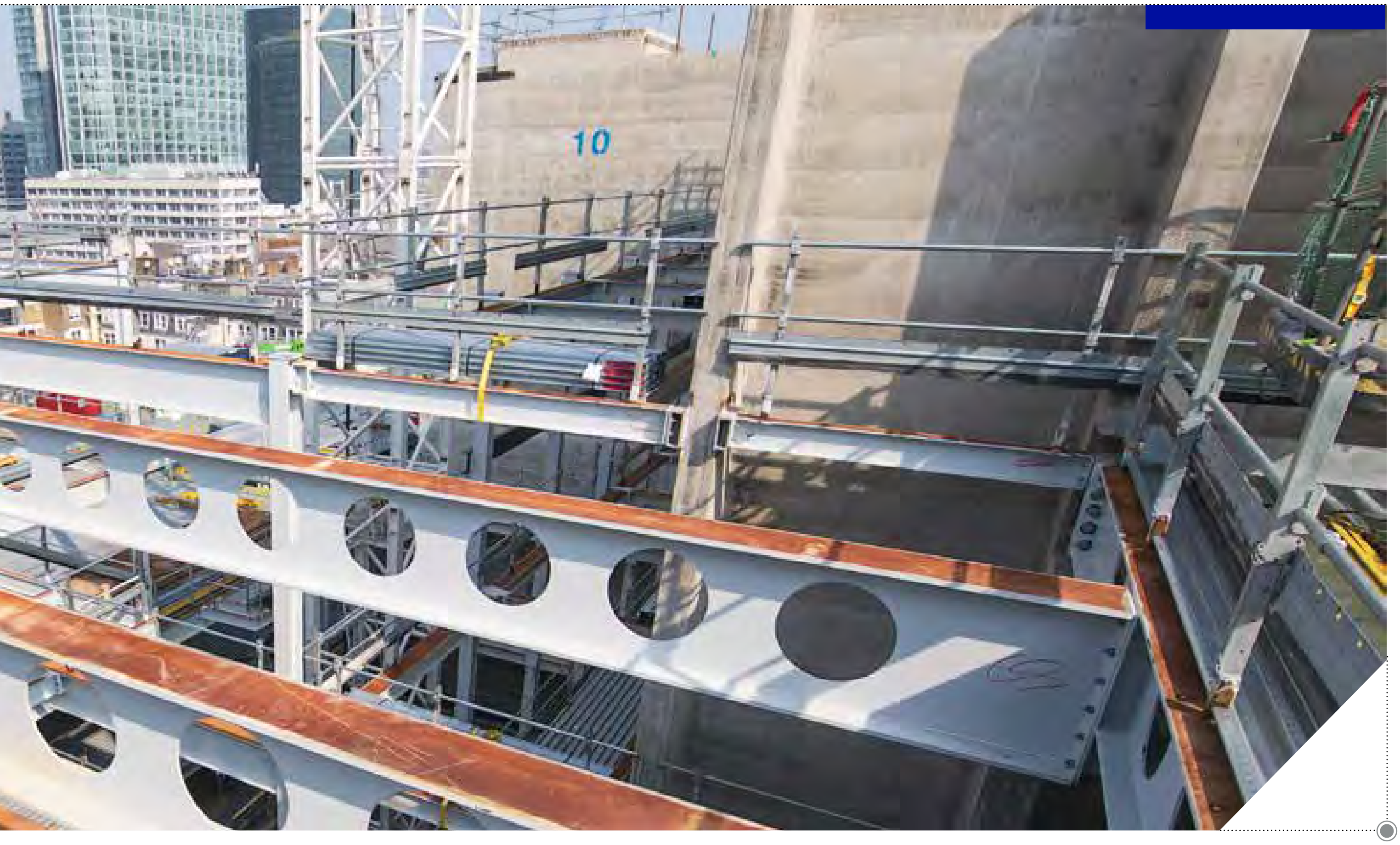
The Group's potential production capability is approximately 150,000 tonnes. In 2020, Group revenue of £327.4m represented a 19 per cent increase, to a ten-year high, reinforcing our market-leading position and the continued delivery of our strategic objectives. This strong performance has been achieved despite a softer market backdrop in the UK, particularly in the run-up to the General Election in December 2019. In 2020, we increased our market share in certain sectors, including industrial and distribution, data centres and stadia and leisure, illustrating our ability to generate growth even against a relatively flat UK market backdrop.

Whilst the conclusive outcome of the December 2019 General Election and the UK's departure from the European Union in January 2020 has provided some much-needed certainty to the political landscape, our future trading relationship with the EU remains unresolved. Unfortunately, we are also now seeing the emerging headwinds from COVID-19. Despite this, our UK and Europe order book of £271m provides the Group with a strong future workload during this unprecedented period of uncertainty and we are encouraged by the current level of tendering and pipeline activity across the Group.

The Group welcomed the news of the sale of British Steel to Jingye Group ('Jingye') on 9 March 2020. Jingye have pledged to invest £1.2 billion to place the business on a more competitive and sustainable footing, helping to provide stability and certainty to the steel supply market in the UK.

Key statistics

Group production	Group potential capacity	UK and Europe order book
95,000 tonnes	**150,000 tonnes**	**£271m**



Outlook and our response – UK

Group potential capacity in the UK

150,000 tonnes

The Group remains well positioned to win work in the diverse range of market sectors in which we operate.

However, the construction industry now faces an unprecedented period of uncertainty over the extent and longevity of the COVID-19 pandemic and these forecasts are likely to be subject to significant revision as the impact of COVID-19 becomes clearer over the coming months.

Notwithstanding the current market uncertainty, the Group remains well positioned to win work in the diverse range of market sectors in which we operate and across a wide client base, providing us with extra resilience and the ability to increase our market share.

The Group's successful record in the **transport infrastructure** sector, means we are well positioned to capitalise on the UK government's strong pipeline of major infrastructure projects. The government's commitment to HS2 and its April announcement to proceed quickly with phase one construction work, which is worth an estimated £12 billion, has provided some much-needed certainty to the construction industry.

We also continue to see a good number of opportunities in the **industrial and distribution** and **data centre** sectors, which remain strong. These projects play to our strengths, requiring high-quality, rapid throughput, on-time performance and full co-ordination between stakeholders.

In accordance with our strategic objectives, the Group has diversified into new sectors and continues to enhance its product ranges. During the year, the acquisition of **Harry Peers** will significantly expand and extend Severfield's current capabilities into attractive complementary market sectors, including nuclear, process industries and power generation. In particular, the nuclear sector is forecasted to grow through the UK government's decommissioning investment programme which is based on an expected decommissioning budget of £164 billion over the next 120 years. In addition, our **Severfield (Products & Processing)** business has developed its product range to include new 'Severstor' and 'Seversilo' ranges, which we are developing organically. 'Severstor', for which we have already secured our first orders, is the manufacture of secure, steel storage units that house critical systems technology for a range of main contractors and end-users.

The mix of work within the market sectors that we target will be a key determinant of the Group's future performance during the current uncertain times as the UK economy recovers from the COVID-19 crisis. With a strong market position, entry into new UK markets through acquisition and organic growth and a continued focus on driving our 'Smarter, Safer, more Sustainable' initiatives, the outlook for the Group remains positive.

The markets we serve: The UK and Europe

TAILORING OUR OFFERING FOR THE EUROPEAN MARKET

Europe

During the year, the Group successfully delivered a number of projects in the Republic of Ireland, Sweden and Finland, supported by our Netherlands-based European business, which is now fully integrated into the main operations of the Group.

Our European team is dedicated to tailoring our established UK offering for the European market, with a particular focus on Northern Europe and Scandinavia. Attractive opportunities have been identified in the Group's key markets, including in the data centre and industrial and distribution markets, although the timing of some of these remains uncertain as a result of COVID-19. We continue to engage with our stakeholders in the European market and develop our network with clients, designers and developers. The European team's market knowledge and experience has also been of significant benefit to our UK businesses, when tendering for and executing projects in Europe, providing us with a commercial advantage and the ability to enhance our reputation through the delivery of excellent client service.

Whilst the UK's eventual exit from the European Union in early 2020 has reduced some of the earlier political uncertainty, elements remain as the nature of the UK's future trading relationship with the EU remains unresolved. We continue to monitor developments in this area and we have plans in place to mitigate, where possible, the impact of leaving the EU on the fulfilment of orders in the Republic of Ireland and continental Europe and on our supply chain.

Order book

UK and Europe order book

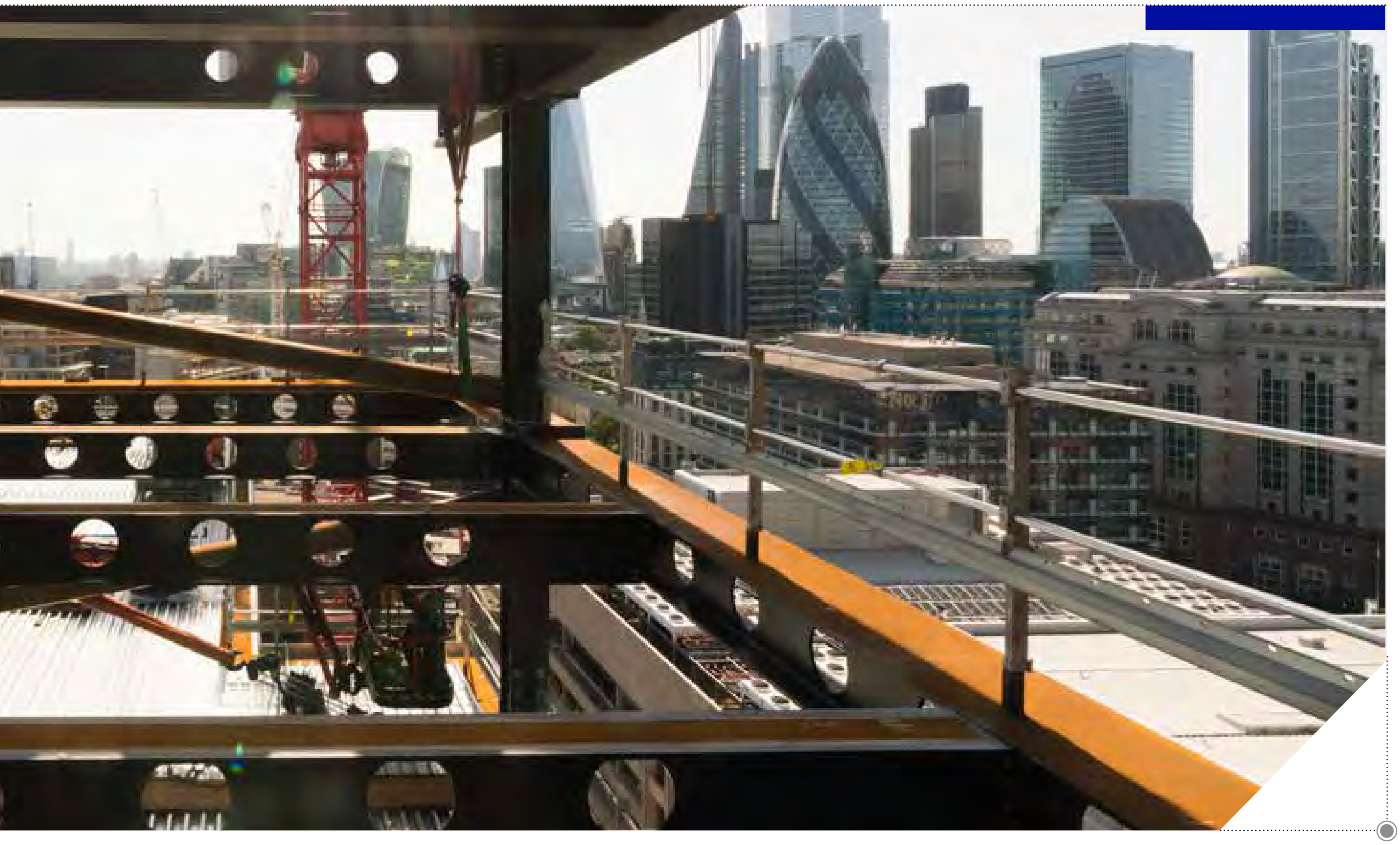
£271m

The Group's order book at 1 June 2020 of £271m reflects a decrease from the record order book of £323m announced at the time of the half year results (at 1 November 2019) as a result of increased Group activity levels in the second half of 2020. Significant orders reflected in our order book include a large industrial facility and a large data centre, both in the Republic of Ireland, a large data centre in Finland, a large distribution facility in the UK, the new stadium works at Fulham F.C. and the redevelopment of Lord's Cricket Ground (Compton and Edrich stands).

Pipeline and prospects

The Group continues to monitor the future pipeline of projects currently being tendered.

This provides forward visibility of future orders and allows us to make strategic decisions that impact on our production planning and facilities. Whilst the impact of COVID-19 on the global economy, the industry and the Group remains uncertain, we are encouraged by the current level of tendering and pipeline activity. This includes a range of projects in the industrial and distribution, data centre, commercial office, transport infrastructure and nuclear sectors in the UK and Europe.



Strategy in action: Growth

HARRY PEERS ACQUISITION

During the year, the Group acquired Harry Peers, a leading structural steelwork business within the nuclear, process industries and power generation sectors.

The initial consideration for the business was £18.9 million payable in cash on completion. A performance based deferred consideration is in place, which could increase the purchase price by up to £7.0m, payable in late 2020.

The acquisition will significantly expand and extend Severfield's current capabilities into attractive complementary market sectors including nuclear, process industries and power generation. Combining these businesses has enhanced the Group's position as the UK's broadest structural steel services group.

Strategic rationale for the acquisition

The board believes that the long-term investment profile of Harry Peers' key market positions in the highly regulated markets as above, enhances its areas of expertise and broadens its market exposure. With the scale and capabilities already existing in the Group, there are substantial opportunities to grow Harry Peers through a number of combined operational initiatives such as new business development function, European contract opportunities and investment in technology-driven enhancements. Harry Peers has also demonstrated capability in modular structural steel offerings, which the Group will look to develop across its offerings.

Harry Peers commercial markets

The nuclear sector, including both the defence and commercial sectors, in which Harry Peers commands a niche, well-established and trusted position with blue chip customers, is forecasted to grow through the UK Government's decommissioning investment programme. The UK Government is forecasted to require a decommissioning budget of £164 billion over the next 120 years.

The process industries sector is wide ranging and includes pharmaceutical and petrochemical sectors. The installed base in the UK is extensive. Upgrades and development to operational sites provide ongoing opportunities for offsite modular solutions.

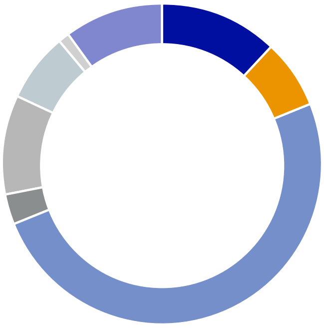
The power generation market, including energy-from-waste plants, which contribute 5.57TWh of electricity per annum, is forecast to grow on the back of the world economy seeking alternatives to carbon fuels. The UK government has set a target of 15 per cent of final energy consumption from renewable sources by 2020, meaning that 30 per cent of electricity production will have to come from renewable sources.

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 2019 calendar year are shown below:



	Percentage	Tonnes
Commercial offices	12%	99,500
Transport (including bridges)	7%	63,000
Industrial and distribution	50%	424,000
Stadia and leisure	3%	29,000
Power and energy	10%	89,000
Data centres and other (inc. nuclear and process industries)	7%	52,000
Retail	1%	11,500
Health and education	10%	88,000

Core infrastructure sectors

Transport

10-20%

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.

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, The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, London Development Project, St Giles Circus Development, Hanover Square Masterplan, One Braham 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 a large industrial facility in the Republic of Ireland.

Stadia and leisure

20-30%
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

5-10%
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, 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

30-40%
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).

Acquisition of Harry Peers

The acquisition of Harry Peers has extended the Group's current capabilities into attractive complementary market sectors particularly nuclear and process industries. We are continuing to refine our market intelligence of these new sectors, which will broaden our market exposure and enhance our areas of expertise.

Successes

Multiple contracts with Sellafield and the Atomic Weapons Establishment ('AWE'), and processing projects with Centrica and water distillation specialist, SNF.

The markets we serve: India

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.

2020 performance

JSSL has performed very strongly in the current year. The business continued to expand and almost doubled its profit from 2019, of which the Group's after tax share was £2.2m (2019: £1.2m). This higher profitability reflects an increase in revenue of 30 per cent to £109.3m (2019: £84.1m) and an increase in the operating margin to 8.5 per cent (2019: 6.4 per cent), resulting in a profit before tax for JSSL of £5.6m (2019: £3.2m). The improvement in the margin was anticipated and reflects an increased mix of commercial work compared to the higher levels of industrial work which were delivered in 2019.

Total output for 2020 was an impressive 96,000 tonnes split between the Bellary plant and subcontracting, reflecting the growth of JSSL's own business and the greater acceptance and use of steel in construction. This volume was split across various sectors including projects in healthcare, the multi-use commercial market, retail and industrial applications (particularly for JSW), all delivered and constructed with a high standard of health and safety.

JSSL's health and safety record is excellent with 2020 another year free of lost time incidents ('LTI'). This is a very pleasing statistic which means that approximately 20 million fabrication and construction hours have been undertaken since the last LTI in 2014, resulting in many certificates and awards from clients and health and safety organisations in India.

The expansion of the Bellary facility, which has expanded factory capacity from c.60,000 tonnes to c.90,000 tonnes, is now complete. The expansion was successfully completed on time and ahead of budget.

COVID-19 and market developments

The COVID-19 pandemic is impacting JSSL in 2021. On 24 March 2020, the government of India, under Prime Minister Narendra Modi, ordered a nationwide lockdown for 21 days, limiting movement of the entire 1.3 billion population of India. At the same time all international travel to and from India was cancelled. The lockdown has been subsequently extended at various times, although with some slight easing for various sectors and regions under a risk-based traffic light scheme.

As a result of this, JSSL's factory and site operations have been disrupted in the first quarter of 2021, a situation which is likely to continue over a period of several months. Given the rapidly changing dynamics in the external environment, it is difficult to predict with any accuracy what the extent of this disruption will be on JSSL's profitability in 2021. JSSL's order book was £110m at 1 June 2020 (1 November 2019: £134m), and this contains a good mix of higher margin commercial work. Despite the ongoing market uncertainty, JSSL's pipeline of potential orders continues to include a number of commercial projects for key developers and clients with whom it has established strong relationships.

JSSL

Despite the recent challenges of COVID-19, JSSL is well positioned for future market expansion. Since its inception 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 expanded 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. 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 has been added to the existing two plated beam lines, together with a bit shop and additional painting facilities.

Outlook

Whilst the short to medium-term situation remains challenging as a result of COVID-19, the longer-term growth predictions for India remain very positive. With JSSL's holistic design and build capability, the successful implementation of new 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 also further growth through the continued conversion of the market from concrete to steel.

Despite the current period of uncertainty, we remain optimistic about the long-term development of the Indian market and of the value creation potential of JSSL, especially considering the political, commercial, social and technological changes made in India 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.

Engaging with 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 and funders.

Our key stakeholders

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 in our recruitment, performance management and reward, 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 2020 'building a sustainable business' report.

During the COVID-19 outbreak we have seen the value to the business of our culture, and our people really came to the fore to enable us to continue to carry on trading as normally as possible. We are holding regular video conference calls with the executive team and the board and we are regularly communicating with those working from home. During this period, we issued regular 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 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 communicated regularly with our staff and specifically launched 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.

During the year, non-executive directors met with employees through our director site safety programme. We held our inaugural Severfield Safety First Awards in November 2019 where we were able to celebrate with colleagues key safety-related achievements and initiatives throughout the year. This event gave colleagues the opportunity to share ideas and experiences with

colleagues from different roles and regions across the Group. We regularly analyse employee feedback and communicate the results to employees together with the actions to be undertaken in response.

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, and pay our supply chain fairly and we are a member of the Prompt Payment Code which means over 95 per cent of our suppliers and subcontractors are 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 73.

Our strategy

OUR VISION IS TO BE RECOGNISED AS WORLD-CLASS LEADERS IN STRUCTURAL STEEL.

We will deliver this vision through the Group's strategy which is supported by a focus on five key elements and assisted by our business improvement programme, 'Smarter, Safer, more Sustainable'.

Group strategy

- Growth
- Clients
- India
- Operational excellence
- People

SMARTER, SAFER, MORE SUSTAINABLE

Our business improvement programme represents the consolidation of all of 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, operating efficiencies and new product development, all set within the framework of strong risk management and control.

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 while 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 38	**1** **2** **3** 4 **5** **6** 7	**1** **2** **3** **4** **5** **6** **7** 8 9
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 40	**1** **2** **3** 4 **5** **6** 7	**1** **2** **3** **4** **5** **6** **7** 8 9
India The Indian business has significant value creation potential, especially give the recent expansion of the business and the political and social changes made in India over recent years. Read more on page 41	1 **2** 3 4 **5** 6 7	1 2 **3** 4 5 6 7 **8** 9
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 42	**1** **2** 3 **4** **5** 6 7	**1** **2** **3** **4** **5** **6** **7** 8 9
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 44	**1** **2** **3** **4** **5** **6** **7**	**1** **2** **3** 4 5 6 7 8 **9**

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. Accident frequency rate (‘AFR’) / Injury frequency rate (‘IFR’)

Key to principal risks

1. Health and safety
2. Commercial and market environment
3. COVID-19
4. Information technology resilience
5. Mispricing a contract (at tender)
6. Failure to mitigate onerous contract terms
7. Supply chain
8. Indian joint venture
9. People

Read more about **our safety, health and environment strategy** on pages 66 to 69

Read more about **our people strategy** on pages 70 to 72

Our strategy

In 2020, 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 to build on recent contract wins, to drive growth through our European business and our core business in the UK.

Achievements in 2020

- Achieving an underlying profit before tax of £28.6m meant we have surpassed our 2020 strategic profit target.
- Grown Group revenue by 62 per cent since we launched our strategic growth target in 2015.
- The UK and Europe order book at 1 June 2020 stands at £271m, providing the Group with a strong future workload.
- Entered new UK markets through the recent acquisition of Harry Peers.
- Invested in organic growth with the launch of our new 'Severstor' and 'Seversilo' product ranges.
- Continued to develop our industrial and distribution and data centre offering, adopting a more sector-focussed approach.
- Invested £6.5m in capital expenditure as our capital investment programme continues to drive operational efficiencies and organic growth across the Group. This has enhanced our market position and ensures we remain competitive across a wide range of sectors.
- CMF continued to develop its product offering and grow organically.

Objectives for 2021

- Further grow Group revenue whilst responding to the challenges of COVID-19 and maintain the quality of the order book.
- Focus on enhancing our position in existing UK markets where the Group already has specialist expertise (at good margins and with acceptable levels of risk) to deliver sustainable shareholder value.
- Maintain our focus on key sectors in the UK and Europe including industrial and distribution, data centres, commercial offices, stadia and transport infrastructure to strengthen and widen our market focus.
- Exploit further opportunities for growth, both organically and through acquisition.

Strategy in action

GULFSTREAM AIRCRAFT HANGAR, FARNBOROUGH

Providing space for up to 13 private jets and accompanying office facilities, this modern aircraft hangar will help keep Gulfstream's fleet in the sky.

The Project

Located at Farnborough Airport, London's gateway for business aviation, this 236m long 'maintenance, repair and overhaul' ('MRO') facility for Gulfstream private jets consists of a large aircraft hangar with a three-storey feature office, with further office space along its full length. Designed to house up to 13 jets with clear spans between them, three large hangar doors open into c.230,000 square feet of space topped by a sweeping roof complete with gantry crane beams.

To complete the project, Severfield supplied, fabricated and erected a mix of hot-rolled structural steel and cold-rolled purlins, as well as utilising our expertise in connection design in conjunction with consultant engineers. The building consists of twenty-seven 40m roof trusses, which were required to be fabricated and delivered in three sections for transport, as well as the three 70m door trusses required to head the large hangar doors. These were also delivered in sections and bolted together on the ground, then lifted onto temporary support towers before being jacked into position to a sub-9mm tolerance over the 70m length.

The nature and location of the project presented additional challenges. Working so close to an active airport meant that site operations were conducted at unusual hours in order to prevent the landing air traffic from being disrupted by the cranes needed to position the trusses. These trusses also needed to have tight tolerances over large distances in order to properly install the crane gantry beams, with the use of temporary support towers necessitating a very specific order for their installation. The project also called for the use of four different paint systems, requiring close coordination and tracking from the drawing office through to production. Despite the challenges, the site programme was completed to the original schedule.

Location
Farnborough Airport, Hampshire

Client
Gulfstream

Engineer
Hydrock

Architect
Gebler Tooth

Tonnage
1,320

Completion date
February 2020

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.

Achievements in 2020

- Continued to develop our relationships by working collaboratively with key clients during the year. We take a long-term approach to relationships with our clients, aiming to deliver exceptional quality and service that encourages them to choose us on their next project.
- Engaged with a number of clients in the early stages of the contract process to explore and develop cost-effective, safe and practical solutions from project conception to meet our clients' requirements.
- Continued to integrate our skilled and experienced employees into our clients' project teams, working collaboratively to efficiently overcome project challenges.
- Launched our Group-wide supply chain accreditation process to ensure that our supply chain partners continue to match our expectations of quality, sustainability and commitment to client service.
- Developed new client relationships resulting in further opportunities, including in Europe and in smaller projects in the UK.

Objectives for 2021

- Continue to deliver a quality, safe and efficient service to our clients.
- Further 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 to seek to engage with our clients at an early stage to enhance our understanding of their requirements and to add value throughout the project life cycle.
- Explore and develop innovative and new collaborative ways of working that are mutually beneficial to us and our clients while ensuring that risk and reward are appropriately balanced.

India

The Indian business has significant value creation potential, especially given the recent expansion of the business and the political, commercial, social and technological changes made in India over recent years.

Strategic priorities

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.

Achievements in 2020

- Strong performance by JSSL in the year resulting in the Group's share of profit after tax of £2.2m (2019: £1.2m).
- Improved JSSL operating margin of 8.5 per cent (2019: 6.4 per cent) reflects an increased mix of commercial work compared to the higher levels of industrial work which were delivered in 2019.
- Completion of the Bellary factory expansion, which has increased factory capacity from c.60,000 tonnes to c.90,000 tonnes, positioning us well to continue to take advantage of future growth opportunities.
- Further investment in the management team, technical and operational staff to further drive efficiency improvements.

Objectives for 2021

- Respond to the challenges of COVID-19.
- Continued order book development and leveraging the increased factory capacity to build on the improved mix of higher margin commercial work to benefit operating margins.
- Continue to service industrial projects, including those for JSW Steel and improve our design and build and value engineering proposition.
- Invest in and grow the capability of the local team, and continue to develop succession and management developed initiatives.

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 in order to support the Group's ongoing requirements and for growth.

Achievements in 2020

Continued focus on our 'SSS' initiatives have driven improvements in our operational execution. During the year, these initiatives included:

- Further developments to our Group-wide production management system (StruMis) and our contract management system (Workspace).
- Optimisation of factory processes, particularly at Dalton, the Group's main fabrication facility.
- Launching our Group-wide supply chain accreditation process to ensure that our supply chain partners continue to match our expectations of quality, sustainability and commitment to client service.
- Continued investment in IT, including the roll-out of data analytics and workflow management software and project specific commercial and operational tools.
- Implementation of quality control and cost reduction programmes and application of Lean manufacturing techniques.
- Improved our approach to design, looking at new and innovative ways of working, including the use of enhanced BIM (3D) modelling.
- Successfully switched to 100 per cent green electricity at our two largest production facilities, reduced our greenhouse gas ('GHG') emissions and achieved an 'A-' rating in the CDP index new supplier engagement rating.

Objectives for 2021

- 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.
- Maintain our focus on developing state-of-the-art manufacturing technologies and key systems integration to drive operating efficiencies.
- Develop and roll out our Group-wide sustainability strategy to further reduce our environmental impact and carbon emissions, working collaboratively with customers, industry and the supply chain.
- Further development of design and drawing office processes, reducing our reliance on paper-based information.

Strategy in Action

MULTI-STOREY CAR PARK, MANCHESTER AIRPORT

Full design and build contract for the supply, treatment and erection of structural steelwork and metal decking for the steel frame including office building and link bridge.

The Project

The proposed development is a multi-storey car park with five levels of parking for approximately 8,500 valet parked cars. It will be used as a drop and go facility and will include an office building, reception, and a footbridge linking into terminal three.

The multi-storey car park off-site and on-site programmes are being completed to a tight schedule, necessitating high production outputs from the Group's Dalton manufacturing facility and a high erection piece count on site. Overall, 4,100 tonnes of structural steelwork were supplied for the main multi-storey car park, 70 tonnes for the reception building and 110 tonnes for the link bridge into the main terminal building. The car park floors also include metal decking supplied by Severfield with in-situ cast concrete. Approximately 126,000 square metres of metal decking and 165,000 shear studs were provided as part of the erection programme.

A key design challenge faced by the Group's project team was to overcome the difficulties encountered by the inclusion of a bespoke fire protection system within the scope. This precluded the use of a conventional intumescent paint system and galvanised metal decking. After extensive research, the Group selected metal decking coated with Magnelis, a new metallic steel coating system comprising zinc, aluminium and magnesium which provides superior corrosion protection to galvanising. Due to the harsh environmental conditions, working closely with specialists Sherwin Williams, we opted to use a type of intumescent paint originally developed for the off-shore industry, which satisfied MAG's requirements.

Location
Manchester Airport, Manchester

Client
Manchester Airport Group ('MAG')

Main contractor
Galliford Try

Engineer
AECOM

Tonnage
4,280

Completion date
June 2020

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

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 while maintaining a safe working environment.

Achievements in 2020

- Recognition of the skill and expertise of our project teams through a number of national awards for our projects including the 2019 Structural Steel Design Awards and the 2019 Institute of Structural Engineers' Structural Awards.
- Increased employment across the Group to around 1,400 employees, which includes 61 employees who joined us with the Harry Peers acquisition.
- Continued to invest in our Severfield development programme for emerging leaders and launched our 'early careers' initiative.
- Continued to promote our graduate and apprenticeship schemes and have successfully on-boarded our first wave of apprentices following our work with the Institute for Apprenticeships through which we collaboratively developed a metal fabricator apprenticeship programme.
- Welcomed the appointment of Louise Hardy, our first female board member.
- In 2020, our accident frequency rate, including our Indian joint venture, was 0.15, which continues to outperform the industry average. We have widened our KPIs to include injury frequency rate ('IFR'), rather than only reporting on serious accidents.
- Further developed our internal communication channels, including the launch of a new Group-wide intranet, to enable us to keep in touch with all our employees. This was even more important following the outbreak of COVID-19 to update a large number of colleagues who were working from home.
- Continued to invest in the development of our human resources and payroll management system, to improve efficiency across our people processes.

Objectives for 2021

- Develop and implement our people strategy in tandem with our Group-wide sustainability strategy.
- Undertake a comprehensive workforce engagement programme to gain a deeper understanding of colleagues' perspectives and to refresh our purpose and vision.
- Continue to share best practice across the Group in operational processes, technical knowledge, governance and compliance.
- 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.
- Further refine and develop our accident and injury reporting metrics to ensure we are continuing to drive the appropriate safety behaviours.

Strategy in Action

KING'S CROSS P2

A mixed-use development in central London, currently intended to incorporate a 600-seat theatre, c.194,000 square feet of office space and c.18,000 square feet of retail space.

The Project

The 12-storey scheme, the latest project being delivered as part of the 67-acre redevelopment of Lewis Cubitt Square, King's Cross, will primarily consist of office accommodation over nine floors. It will also include a 600-seat theatre and bar. The ground floor on the south side will be dedicated to retail space, further expanding the shopping experience outward from the nearby Coal Drops Yard development, also delivered by the Group during our 2017 financial year.

The Group's scope includes the design, fabrication and erection of a 3,600 tonne structural steel frame with precast package of internally exposed structural steelwork to an architectural standard finish. This will incorporate 20,000 square meters of hollow core flooring with exposed soffit including supporting steelwork, steel bracketry and Macalloy hangers to the mezzanine floors. Given much of the completed steel frame will also be left exposed, this requires the paint finish on all parts of the structure to be to a high decorative standard. The Group elected to utilise intumescent paint with an on-site top-coat applied. Additional Severfield products and services incorporated into the programme include deployment of 'Seversafe' edge protection, safety fans at two levels and the 'Seversafe' offload system.

Location
King's Cross, London

Engineer
ATK II

Architect
AHMM

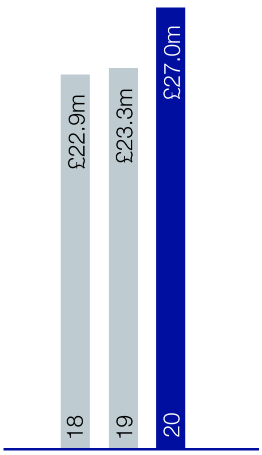
Tonnage
3,600

Main contractor
Kier

Completion date
September 2020

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 focussed 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.

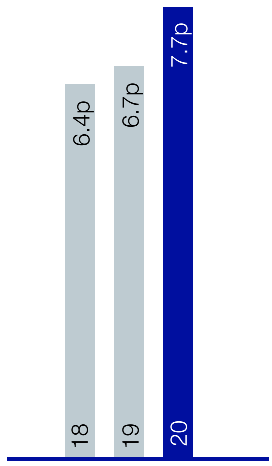
Our performance

Underlying operating profit (before JVs and associates) has increased by 16 per cent, exceeding our 2020 strategic profit target of doubling underlying profit before tax to £26m.

Stakeholder linkage

- Shareholders
- Employees

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 increased by 15 per cent, reflecting the increased underlying profit before tax in the year.

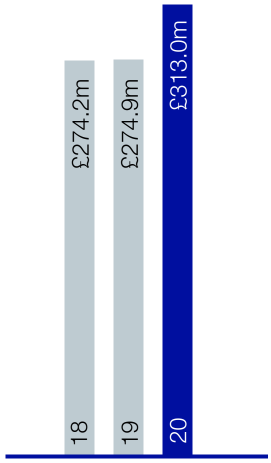
Stakeholder linkage

- Shareholders
- Employees

Strategic pillar key

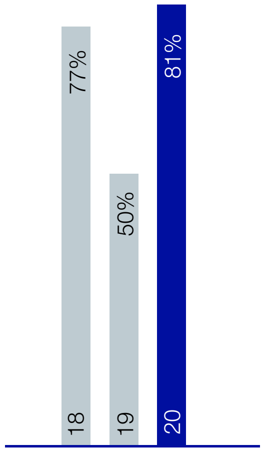
- Growth
- Clients
- India
- Operational excellence
- People

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



Strategic pillar

4 Operating cash conversion



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.

In the current year, the acquisition of Harry Peers contributed revenue of £14.4m for the six months since its date of acquisition. Accordingly, this KPI is adjusted to reflect the Group's like-for-like revenue growth. There were no such adjustments in the prior year.

Our performance

Like-for-like revenue has increased by 14 per cent, reflecting an increase in order flow and higher production activity, particularly in the second half of the year.

Stakeholder linkage

- Shareholders
- Employees
- Clients
- Suppliers
- Communities

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) (see note 26).

Our performance

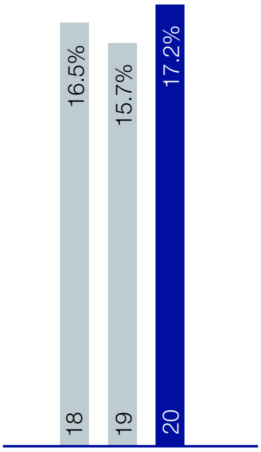
Operating cash conversion was 81 per cent, in line with our target conversion rate of 85 per cent.

Stakeholder linkage

- Shareholders
- Employees
- Suppliers

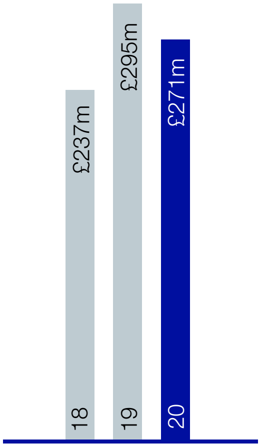
Key performance indicators

5 Return on capital employed ('ROCE')



Strategic pillar

6 Order book



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 (see note 22).

Our performance

ROCE has increased by 1.5 per cent, continuing to exceed the Group's target of 10 per cent.

Stakeholder linkage

- Shareholders
- Employees

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 £271m at 1 June 2020, representing an 8 per cent decrease since 1 June 2019. This reduction mainly reflects the higher revenue recorded in the second half of the 2020 financial year.

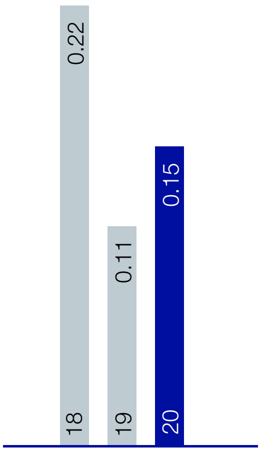
Stakeholder linkage

- Shareholders
- Employees
- Suppliers
- Communities

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

7 Accident frequency rate (‘AFR’) Injury frequency rate (‘IFR’)



Strategic pillar

Why this is important

AFR and IFR are industry-standard measures of the safe operation of our business and are among a number of health and safety measures the Group uses to monitor its activities.

During the last year, we have shifted our focus to the Group’s injury frequency rate. IFR focusses 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

AFR is equivalent to one reportable lost-time incident per 100,000 hours worked, which equates to approximately one working lifetime.

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

Our performance

Once again, we have achieved our safety targets for the year, reporting an AFR, which includes our Indian joint venture, of 0.15, and continuing to outperform the industry average. The slight increase from the prior year was not wholly unexpected given both the significant improvement in the AFR in 2019 and the increased Group activity levels in 2020.

Stakeholder linkage

- Employees

Our operating performance

THE GROUP HAS DELIVERED AN EXCELLENT SET OF RESULTS IN 2020.

Alan Dunsmore
Chief executive officer

Group overview

The Group has delivered an excellent set of results in 2020. This reflects a combination of revenue and profit growth in the UK and Europe, good operational and strategic progress, good cash generation and a significantly improved performance from our Indian joint venture.

In 2020, we have increased our revenue by 19 per cent to £327.4m (2019: £274.9m) and are pleased with our profit performance with underlying profit before tax up 16 per cent to £28.6m (2019: £24.7m), exceeding our 2016 strategic profit target of doubling underlying profit before tax to £26m. This improved profit performance has been achieved despite a softer market backdrop in the UK, particularly in the run-up to the General Election in December 2019.

The 2020 results include the acquisition of Harry Peers, a leading structural steelwork business within the highly regulated nuclear, process industries and power generation sectors, which is broadening the Group's market exposure and enhancing its areas of expertise. Harry Peers is integrating well into the Group's operations and has contributed revenue of £14.4m and underlying operating profit of £1.3m for the six months since its date of acquisition.

Balance sheet strength and cash generation have remained a high priority for the Group in 2020. Another year of positive cash generation has provided us with the flexibility to invest in our UK businesses whilst further strengthening our balance sheet which provides us with a competitive benefit with both clients and our supply chain. Year-end net funds (excluding IFRS 16 lease liabilities) were £16.4m (2019: £25.1m) – this includes the outstanding term loan of £13.1m for the Harry Peers acquisition.

The Indian joint venture ('JSSL') has also performed very well in 2020. JSSL's strong performance was reflective of the step change in the Indian market position in 2020, and its results have benefitted from significant revenue growth, margin improvements and good operational performance.

We continue to exceed our return on capital employed ('ROCE') target of 10 per cent and have achieved a return of 17.2 per cent in the year (2019: 15.7 per cent), maintaining the Group's alignment with its construction and engineering clients and peers.

COVID-19

Unfortunately, after such an encouraging year in 2020, since the year-end we have been focussing on the challenges which have resulted from the spread of COVID-19. 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. To date we have coped well with the challenges presented by COVID-19. The Group's factories are operational and, after some temporary interruptions, all of our construction sites in the UK and Europe remain open. Strict precautions are in place for both the factories and the sites including enhanced levels of cleaning, additional hygiene facilities and social distancing.

At this early point in our financial year it is impossible to predict the full extent of the financial impact of COVID-19 on the 2021 outturn. Despite this, we have a strong balance sheet and are confident that we have sufficient cash and committed funding in place during this unprecedented period of uncertainty.

Notwithstanding our current strong balance sheet position, in order to mitigate the financial impact of COVID-19, and protect our cash position during the current period of uncertainty in a manner that does not compromise our future plans for the Group, a number of precautionary actions have been implemented. These include the deferral of all non-essential and uncommitted capital expenditure, together with restrictions on discretionary operating expenditure, tight management of working capital and the deferral of tax payments (PAYE, NIC and VAT) and quarterly term loan repayments (due in March and June). Furthermore, prior to the year-end, we fully drew down all available amounts under our Revolving Credit Facility (£15m) to provide control over our own cash resources.

Following a successful 2020, the board would ordinarily expect to propose a final dividend in line with our progressive dividend policy. However, the board believes it is prudent to defer any dividend payment decisions until there is greater visibility on the impact of COVID-19.

UK and Europe

Revenue was up 19 per cent over the prior year predominantly reflecting an increase in order flow and higher production activity, particularly in the second half of the year, together with the second half impact on revenue of the Harry Peers acquisition. During the year, we continued to work on the new Google Headquarters at King's Cross, together with other commercial office developments in London and the regions. Other significant revenue contributing projects include large industrial and distribution projects in the UK and Republic of Ireland, large data centres in Finland and the Republic of Ireland, ongoing projects at Heathrow and Manchester airports, and a scientific research facility in Sweden, which was the first significant order won by our European business.

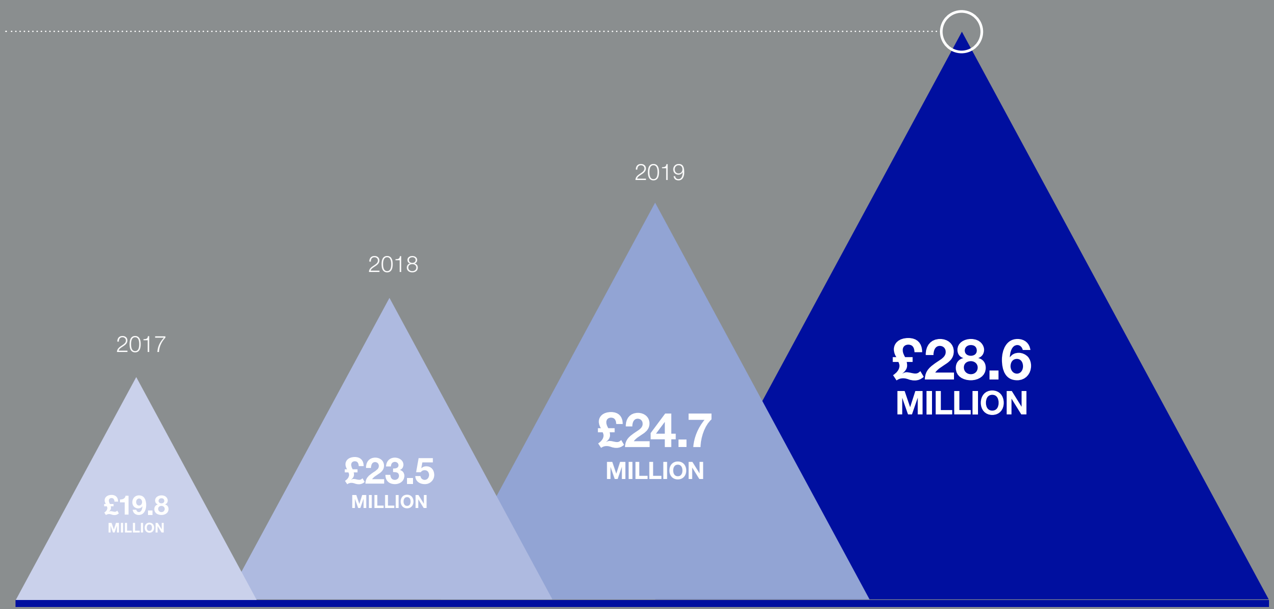
The underlying operating margin (before JVs and associates) was 8.2 per cent (2019: 8.5 per cent), resulting in an underlying operating profit (before JVs and associates) of £27.0m (2019: £23.3m). The 2020 margin remains within our strategic margin range of 8 to 10 per cent and the slight reduction in the margin compared to the prior year reflects the mix of work undertaken during the year and the slightly softer market conditions in the UK, particularly toward the end of the 2019 calendar year.

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 improving many aspects of our internal operations, including the application of Lean manufacturing techniques, optimisation of factory processes, quality control and cost reduction programmes.

Building from a strong foundation

Delivering on our promises

Exceeded our 2020 strategic profit target



Our operating performance

'Smarter, Safer, more Sustainable'

'SSS' is an enduring process for the Group and forms part of a continuous cycle of improvement, with an increased focus on manufacturing efficiency, rather than a one-off programme. We also believe that the successful development and adoption of new technologies across the whole of the Group will be fundamental to our long-term strategic objectives.

During the year, we have overseen further enhancements to our Group-wide production management system (StruMIS), which will help drive productivity improvements, and our contract management system (Workspace), including the use of the system on mobile devices. We have also rolled out a new Group-wide supply chain accreditation process to ensure that our supply chain partners continue to match our expectations of quality, sustainability and commitment to client service.

We continue to devote skilled resource to reviewing and responding to developing technologies (including virtual reality and digital technologies). We have a centralised IT team dedicated to ensuring our IT environment is secure, giving us the confidence to invest in new technology and respond to IT risks. In 2020, we have continued the roll-out of new software including data analytics, 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. We are also continuing to take steps to improve the integration of key systems, better automate workflows and, as part of our digital transformation initiative, reduce our reliance on paper-based information to facilitate more efficient ways of working. In addition, through our engineering forum, we have improved our approach to design, looking at new and innovative ways of working, including the use of enhanced BIM (3D) modelling.

We continue to invest in and streamline our factories, particularly at Dalton, which is increasingly operating as a fulfilment centre for the benefit of the Group as a whole. Actions taken to improve manufacturing cost efficiency include waste elimination initiatives and the upgrade, reconfiguration and ongoing expansion of certain of our fabrication lines to improve the speed and efficiency of these operations, together with further investment in our in-house painting facilities at Ballinamallard. The majority of these improvements form part of the Group's capital investment programme, which has seen an investment in 2020 of £6.5m, taking our capital investment in the Group to nearly £40m over a six-year period. We will continue to invest in our businesses in the future to make them more competitive and operationally efficient and to support the development of our client service offering.

Underpinning our culture of continuous improvement is the ongoing focus on human resources and attracting and retaining the highest calibre of workforce remains fundamental to the Group's strategy. During the year, we have continued to invest in our workforce and have increased our headcount to around 1,400 employees, which includes 61 employees who joined us with the Harry Peers acquisition. Throughout the year we have strengthened a range of disciplines across the Group, including within our manufacturing operations team at Dalton. We continue promote our graduate and apprenticeship schemes, and have successfully on-boarded our first wave of apprentices following our work with the Institute for Apprenticeships through which we collaboratively developed a metal fabricator apprenticeship programme.

Our leadership and talent programmes are now well established at various levels within the business, including the Severfield Development Programme, which brings together talent with the potential for future senior roles. Below this level we have launched an 'early careers' initiative which builds readiness for more senior positions. We have also continued to develop and support our people to apply Lean manufacturing techniques, achieve new qualifications, increase their skills and knowledge, and develop their careers with the Group.

Order book, pipeline and market conditions

The UK and Europe order book at 1 June 2020 stands at £271m (1 November 2019: £323m), of which £243m is for delivery over the next 12 months, providing the Group with a strong future workload during the current period of uncertainty caused by COVID-19. The reduction in the June order book represents the anticipated decrease from the record position of £323m at the time of announcing the half year results, mainly reflecting the higher revenue recorded in the second half of the 2020 financial year.

The order book contains a healthy mix of projects across a diverse range of sectors including industrial and distribution, data centres, commercial offices, and stadia and leisure. Significant orders include 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, a large distribution facility in the UK, the new stadium works at Fulham F.C. and the redevelopment of Lord's Cricket Ground (Compton and Edrich stands). From a commercial office perspective, the order book also contains the remaining works for the Google Headquarters at King's Cross, together with a number of mid-sized office developments, both in London and the UK regions, successfully secured by our commercial teams during the year. In terms of geographical spread, of the order book of £271m, 54 per cent represents projects in the UK, with the remaining 46 per cent representing projects for delivery in Europe and the Republic of Ireland (1 November: 53 per cent in the UK, 47 per cent in Europe and the Republic of Ireland).

Whilst the conclusive outcome of the 2019 General Election and the UK's eventual exit from the European Union in early 2020 has reduced some of the earlier political uncertainty, elements remain as the nature of the UK's future trading relationship with the EU continues to be unresolved. We continue to monitor developments in this area and we have plans in place to mitigate, where possible, the impact of leaving the EU on the fulfilment of orders in the Republic of Ireland and continental Europe and on our supply chain.

Unfortunately, there is now also significant uncertainty over the extent of the impact and longevity of the COVID-19 pandemic and we are now seeing evidence of investment decisions being delayed in some of our sectors as clients and developers appear to be adopting a more cautious approach until greater market clarity returns. Pricing generally remains competitive. Despite this, 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, providing us with extra resilience and the ability to increase our market share.

Notwithstanding the current period of uncertainty, we are encouraged by the current level of tendering and pipeline activity across the Group. We continue to see a good number of opportunities in key market sectors, in particular the industrial and distribution and data centre sectors, which remain strong and these projects play to our strengths, requiring high-quality, rapid throughput, on-time performance and full co-ordination between stakeholders. Opportunities exist in these sectors in both in the UK and in Europe, where we have demonstrated our ability to win more work, supported by our European business.

We continue to pursue a number of significant infrastructure opportunities, particularly in the transport sector. The UK government's commitment to HS2 and its April announcement to proceed quickly with phase one construction work, which is worth an estimated £12 billion, has provided some much needed certainty to the construction industry. HS2, in combination with the ongoing Network Rail and Highways England investment programmes, the latter having a record budget of £25 billion for the 2020–2025 period, are expected to contribute significantly to the UK government's investment in infrastructure commitment over the coming years. We remain well positioned to win work from these projects, all of which have substantial steelwork content, given the Group's historical track record in transport infrastructure and our in-house bridge capability.

The sale of British Steel to Jingye Group ('Jingye'), China's third largest privately owned steel producer, was completed in March 2020, helping to provide stability to the steel supply market in the UK. Encouragingly, Jingye has announced its intention to invest over £1 billion in British Steel over the next decade. This investment is expected to include a number of furnace upgrades (including the development of an electric arc furnace in Teesside), steelworks improvements and some product range enhancements. Notwithstanding this, we continue to regularly review our steel supply arrangements and already have strong ongoing relationships with other supply chain partners, including those in continental Europe and local stockholders in the UK.

Our operating performance

Harry Peers

On 1 October 2019, the Group completed the acquisition of Harry Peers, a leading full service structural steelwork business focussing on the nuclear, process industries and power generation sectors. The net initial cash consideration for the acquisition of £18.9m was funded by a combination of a term loan and Group cash reserves. A performance-based contingent consideration of up to £7m is also payable if certain financial and operational targets are achieved for the period to 31 August 2020.

Harry Peers is integrating well into the Group's operations and we are seeing good opportunities to expand and extend the Group's current capabilities into attractive complementary market sectors, broaden our market exposure and enhance our areas of expertise. Looking further ahead, we believe that there are good opportunities to grow Harry Peers through a number of operational initiatives including business development, European contract opportunities, and investment in technology-driven enhancements. In particular, the nuclear sector, including both the defence and commercial sectors, in which Harry Peers commands a niche, well-established and trusted position with blue chip customers, is forecast to grow through the UK government's decommissioning investment programme. Harry Peers has also demonstrated capability in modular structural steel offerings, which the Group will look to develop across its wider product range. This acquisition is another step in the implementation of the Group's strategy and will enhance 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, 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 unique capability to deliver complex design solutions, our capacity and speed of fabrication, the expert capabilities of the Group and its employees and our management and integration of the construction process is important to our clients and a key differentiator for the Group. In particular, 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. This expertise has been recognised during the year through a number of national awards for our projects including at the 2019 Structural Steel Design Awards (for the new Tottenham Hotspur F.C. stadium, Coal Drops Yard at King's Cross, Wimbledon No.1 Court and Chiswick Park Footbridge) and also at the 2019 Institute of Structural Engineers' Structural Awards (for the new Tottenham Hotspur F.C. stadium and Coal Drops Yard).

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

Major projects – over £20 million	Google King's Cross, London
	Large industrial facility, Republic of Ireland
	Large data centres, Republic of Ireland and Finland
Commercial offices – London and regional	One Braham, London
	80 Fenchurch Street, London
	Knightsbridge K1, London
	King's Cross P2, London
	Unity Square, Nottingham
	Assembly Building, Bristol
	103 Colmore Row, Birmingham
Industrial and distribution	Large distribution centre, East Midlands
	Jaguar Land Rover, Logistics Operations Centre ('LOC') and car park
Transport infrastructure	M8 Footbridge, Glasgow
	Barking Riverside Bridge, London
	T2B Apron, Heathrow Airport (baggage handling facility)
	Multi-storey car park, Manchester Airport
Data centres and other projects	Data centres, Republic of Ireland
	European Spallation Source, Lund, Sweden (scientific research facility)
Stadia and leisure	Lord's Cricket Ground redevelopment (Compton and Edrich stands)
	Britannia Leisure Centre and Academy, London

India

JSSL has again performed strongly in the current year. The business has continued to expand and has almost doubled its profit from the previous year, of which the Group's after tax share was £2.2m (2019: £1.2m). This higher profitability reflects an increase in revenue of 30 per cent to £109.3m, compared with £84.1m in the previous year, and an increase in the operating margin to 8.5 per cent, compared with 6.4 per cent in the previous year. The improvement in the margin was anticipated and reflects an increased mix of commercial work compared to the higher levels of industrial work, which was delivered in 2019. The expansion of the Bellary facility, which has expanded factory capacity from c.60,000 tonnes to c.90,000 tonnes, is now complete.

The COVID-19 pandemic is impacting JSSL in 2021. In light of the slow easing of the nationwide lockdown announced by the Indian government in March 2020, and the developing impact of COVID-19 on the Indian economy, JSSL's operations have been disrupted in the first quarter of 2021, a situation which is likely to continue over a period of several months. Given the rapidly changing dynamics in the external environment, it is difficult to predict with any accuracy what the extent of this disruption will be on JSSL's profitability in 2021. JSSL's order book was £110m at 1 June 2020 (1 November 2019: £134m), and this contains a good mix of higher margin commercial work. JSSL's pipeline of potential orders continues to include a number of commercial projects for key developers and clients with whom it has established strong relationships.

Despite the current period of uncertainty, we remain positive about the long-term development of the Indian market and of the value creation potential of JSSL, especially considering the political, commercial, social and technological changes made in India 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.

Safety, health and the environment

'Safety first' remains a core value for the Group, being vital to our continued success and a key differentiator in the market, both to our clients and to our employees. This has been particularly important during the COVID-19 pandemic where we have continued to run our operations safely and in line with the guidelines issued by the Construction Leadership Council, Public Health England and by the UK and local governments.

Our executive committee continue to review safety performance monthly. Investigations are completed on all RIDDORs (a reportable accident that results in an employee's absence from work for more than seven consecutive days) and high potential near miss incidents, with input from the Group SHE director, chief operating officer and the relevant business unit managing director. Findings from investigations and 'lessons learned' are shared Group-wide in order to promote a collaborative approach to preventing accidents and incidents. Board members continue to attend safety-focussed site visits, encouraging employees to suggest improvements and share best practice.

We have, once again, achieved our Group safety targets for the year. The Group's accident frequency rate ('AFR'), including our Indian joint venture, was 0.15, which continues to outperform the industry average. This represents a slight increase from the prior year AFR of 0.11, but this was not wholly unexpected given both the significant improvement in the AFR in 2019 (the 2018 AFR was 0.22) and the increased Group activity levels in 2020. During the year, we have shifted our focus to the Group's injury frequency rate ('IFR'), rather than only on the AFR, which is a fairly narrow metric based on the level of RIDDORs only. Instead, IFR focusses on a variety of incidents, ranging from minor to potentially more serious, which allows us to learn lessons from each individual case and to identify process improvements and prevention measures. The Group's IFR has reduced over the course of the year, with targeted reductions in almost all areas of the business.

During the year, we extended our successful behavioural change programme to our subcontractors to ensure that everyone who works for and with us is committed to our safety culture. We are also planning to extend this programme into other areas of our supply chain. In November 2019, we held our inaugural safety awards to celebrate positive safety behaviours and initiatives by apprentices, other employees and teams within all of our businesses. Owing to the success of the event it will now become an annual occasion.

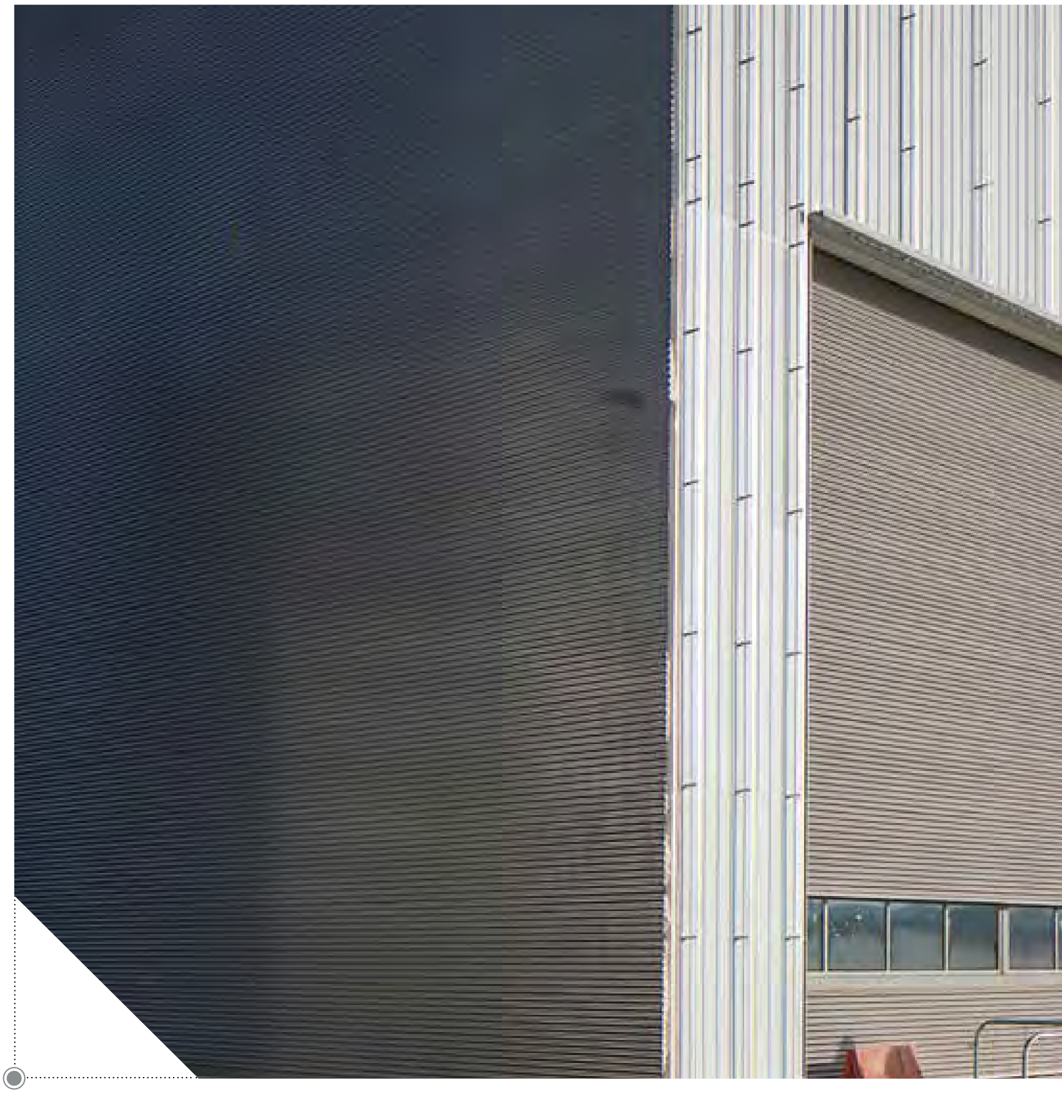
In 2020, a sustainability policy was published by our sustainability committee in line with our commitments to health and safety, environment, the economy and our people. Meeting quarterly, the committee discusses new initiatives and innovations that can minimise the impact of our activities on the environment. The Group has made progress during the year in managing its energy, fuel consumption and emissions, including the switch to 100 per cent green electricity at our two largest production facilities and a reduction in our scope 1 and scope 2 greenhouse gas ('GHG') emissions to 29.8 tonnes of CO_2e/£m revenue compared to 33.5 in 2019. In 2020, we maintained our 'B' rating in the CDP index, also receiving an 'A-' in their new supplier engagement rating, considerably outperforming the industry average of 'D'. 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.

Our operating performance

Strategic progress

We are continuing to deliver on our strategic objectives and, in achieving an underlying profit before tax of £28.6m, we have surpassed our 2020 strategic profit target. As part of the ongoing 'SSS' initiatives, we have implemented a number of factory and technological improvements and have improved our supply chain processes, as well as entering new UK markets through our acquisition of Harry Peers.

Our **Netherlands-based European business**, which is now fully integrated into the main operations of the Group, has continued to deliver its first significant contract, a research facility for the European Spallation Source ('ESS') situated in Lund, Sweden. The steel fabrication for this large contract is mainly being provided from our Dalton facility, together with certain approved subcontractors. The business continues to build on its first two contract wins and is tendering for a number of projects, predominantly in Northern Europe and Scandinavia. It is developing a growing pipeline in a range of sectors, which includes many potentially interesting and high-profile opportunities, although the timing of some of these remains uncertain as a result of COVID-19. The European team's market knowledge and experience continues to be of benefit to our UK business when tendering for and executing projects in Europe, providing us with a commercial advantage and the ability to enhance our reputation through the delivery of excellent client service.



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. Notwithstanding the softer UK market conditions experienced during 2020, the business has secured and successfully delivered a number of orders to its expanding customer base, together with providing subcontract fabrication packages (including general fabrication, trusses, bracing and stairs) to other Group companies to assist them in the delivery of larger projects. During the year, we have continued to gain better competitor and customer intelligence and have improved factory efficiencies, quality assurance and health and safety processes. We have also maintained our focus on opportunities to grow the business and increase our market share, with a particular emphasis on new customer and product range development. This includes our new 'Severstor' and 'Seversilo' product ranges, which we are developing organically following the closure of the similar operations within the Portakabin group. 'Severstor', for which we have already secured our first orders, is the manufacture of secure, steel storage units and 'Seversilo' is the manufacture and installation of storage and handling systems for dry bulk materials. The development of both of these product ranges plays to our strengths in general fabrication and our previous record in modular construction.

In recent periods, we have also been targeting potential organic opportunities in medium to high-rise **residential construction**, where we have developed a steel solution in what has traditionally been a concrete-dominated sector. Despite this being more of a 'slow burn' than originally anticipated due to longer than expected client gestation periods, discussions with a number of interested parties remain ongoing and this opportunity continues to be progressed in the background.

Summary and outlook

In 2020, we have increased our profitability, both in the UK and in India, and have exceeded our 2020 strategic profit target of £26m. Our cash position remains strong, we have continued to drive our 'SSS' initiatives with an increased focus on manufacturing

efficiency, and we have entered new UK markets through the acquisition of Harry Peers.

The overall impact of COVID-19 remains uncertain. Whilst all of our factories are operational and all of our construction sites in the UK and Europe remain open, it is inevitable that the virus will have an impact on profitability in 2021. However, at this early point in our financial year it is impossible to predict the full extent of this financial impact. Despite the uncertainty caused by COVID-19, 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, allowing us to target a good pipeline of opportunities and providing us with extra resilience and the ability to increase our market share.

Finally, I would like to thank all of our employees for their hard work, support and determination in these exceptionally difficult times. From our construction teams to those working in our factories and from home, they have all played a key role in ensuring we can keep our business operating as smoothly as possible at this unprecedented time. As always, their health and wellbeing remains our number one priority.

Alan Dunsmore
Chief executive officer

17 June 2020

Our financial performance

REVENUE FOR THE YEAR IS UP 19 PER CENT, REFLECTING ORGANIC GROWTH AND THE SECOND HALF ACQUISITION OF HARRY PEERS.

Adam Semple
Group finance director

	2020	2019
Revenue	£327.4m	£274.9m
Underlying* operating profit (before JVs and associates)	£27.0m	£23.3m
Underlying* operating margin (before JVs and associates)	8.2%	8.5%
Underlying* profit before tax	£28.6m	£24.7m
Underlying* basic earnings per share	7.7p	6.7p
Operating profit (before JVs and associates)	£24.7m	£23.3m
Profit before tax	£25.8m	£24.7m
Basic earnings per share	6.7p	6.7p
Return on capital employed ('ROCE')	17.2%	15.7%

* 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

2020 has been another successful year for the Group. Revenue for the year of £327.4m represents an increase of £52.5m (19 per cent) compared with the previous year, predominantly reflecting an increase of £38.1m in order flow and higher production activity, particularly in the second half of the year, together with H2 revenue of £14.4m from the Harry Peers acquisition. The Group's order book at 1 June 2020 of £271m represents a decrease of £52m from the record position

at the time of announcing the half year results (1 November 2019: £323m), mainly reflecting the higher than normal revenue recorded in the second half of the 2020 financial year.

Underlying operating profit (before JVs and associates) of £27.0m (2019: £23.3m) was £3.7m higher than in the previous year. The underlying operating margin (before JVs and associates) of 8.2 per cent (2019: 8.5 per cent) remains within our strategic margin range of 8 to 10 per cent. The slight reduction in the margin reflects the mix of work undertaken during the year and the slightly softer market conditions in the UK, particularly toward the end of the 2019 calendar year. The statutory operating profit (before JVs and associates), which includes the Group's non-underlying items, was £24.7m (2019: £23.3m).

The share of results of JVs and associates was a profit of £2.4m (2019: £1.6m), reflecting a year of strong performance from our Indian joint venture ('JSSL'). Net finance costs were £0.7m (2019: £0.2m), the increase over the prior year representing interest on the Harry Peers acquisition loan in H2 and finance expenses on the new IFRS 16 lease liabilities.

Underlying profit before tax, which is management's primary measure of Group profitability, was £28.6m (2019: £24.7m). The statutory profit before tax, reflecting both underlying and non-underlying items, was £25.8m (2019: £24.7m).

Acquisition of Harry Peers

On 1 October 2019, the Group completed the acquisition of 100 per cent of the share capital of Harry Peers & Co Limited for a net initial cash consideration of £18.9m, after working capital adjustments of £0.9m, on a cash free, debt free basis. This was funded by a combination of a term loan of £14.0m and cash reserves of £4.9m. The gross initial cash consideration was £30.8m, which included the cash and cash equivalents (excluding payments in advance) of Harry Peers of £11.9m. A performance-based contingent consideration of up to £7m is also payable if certain financial and operational targets are achieved for the period to 31 August 2020. The acquired assets included intangible assets of £8.8m, which were attributed to customer relationships, order books and brand name, and residual goodwill of £16.0m.

The business contributed revenue of £14.4m and an operating profit of £1.3m in the year. Interest of £0.1m was payable during the year on the acquisition loan.

Share of results of JVs and associates

The Group's share of results from JSSL was a profit of £2.2m (2019: £1.2m). The improved result is mainly due to an increase in revenue of 30 per cent, together with an increase in the operating margin to 8.5 per cent (2019: 6.4 per cent), reflecting an increased level of commercial work in 2020. JSSL's order book was £110m at 1 June 2020 (1 November 2019: £134m), and this continues to include a good mix of higher margin commercial work.

Our specialist cold rolled steel joint venture business, CMF, contributed a Group share of profit of £0.2m (2019: £0.4m), the business being adversely impacted by the softer UK market conditions during the year. The business has continued to develop its product range to drive organic revenue growth. We continue to be the only hot rolled steel fabricator in the UK to have this 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 £2.8m (2019: £nil) consisted of the amortisation of acquired intangible assets of £1.4m (2019: £nil) and acquisition-related expenses of £1.4m (2019: £nil).

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.

The acquisition-related expenses include non-recurring legal and consultancy costs associated with the Harry Peers acquisition and have been expensed in accordance with IFRS 3 (revised).

Read more about our **Group financials** on pages 146 to 195

Read more about **Company financials** on pages 196 to 202

Our financial performance

Taxation

The Group's underlying taxable profits of £26.3m (2019: £23.1m) resulted in an underlying tax charge of £5.0m (2019: £4.5m), which represents an effective tax rate of 19.0 per cent (2019: 19.7 per cent).

The total tax charge of £5.4m (2019: £4.5m) also includes adjustments relating to prior years and the deferred tax impact of the future increase in UK corporation tax from 17 per cent to 19 per cent, both of which are categorised as non-underlying and are included in non-underlying items.

Earnings per share

Underlying basic earnings per share increased by 15 per cent to 7.7p (2019: 6.7p) based on the underlying profit after tax of £23.7m (2019: £20.2m) and the weighted average number of shares in issue of 305.4m (2019: 303.1m). Basic earnings per share, which is based on the statutory profit after tax, was 6.7p (2019: 6.7p), this growth reflects the increased profit after tax offset by an increase in non-underlying items. Diluted earnings per share, which includes the effect of the Group's performance share plan, was 6.6p (2019: 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 other possible 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 is not currently recommending a final dividend (2019: 1.8p per share). Given the wide range of potential profit and cash flow outcomes for 2021, the board believes it is prudent to defer any dividend payment decisions until there is greater visibility on the impact of COVID-19.

Goodwill and intangible assets

Goodwill was £70.7m at 31 March 2020 (2019: £54.7m), the increase reflecting the goodwill arising on the Harry Peers acquisition. In accordance with IFRS, an annual impairment review has been performed. No impairment was required during either the year ended 31 March 2020 or the year ended 31 March 2019.

Other intangible assets are recorded at £7.4m (2019: £nil). This represents the net book value of the intangible assets (customer relationships, order books and brand name) identified on the acquisition of Harry Peers.

Property, plant and equipment

The Group has property, plant and equipment of £88.9m (2019: £84.0m). Capital expenditure of £6.5m (2019: £7.2m) represents the continuation of the Group's capital investment programme. This predominantly comprised continued investment in the painting facilities at Ballinamallard, an expansion of our operations at Ballinamallard and Dalton, including new equipment for our fabrication lines, and the purchase of construction site equiment. Depreciation in the year was £5.5m (2019: £3.6m) of which £1.5m relates to new right-of-use assets under IFRS 16.

Joint ventures

The carrying value of our investment in joint ventures and associates was £26.7m (2019: £24.3m), which consists of the investment in India of £18.3m (2019: £16.1m) and in CMF of £8.4m (2019: £8.2m).

Pensions

The Group's defined benefit pension scheme, which is closed to new members, had an IAS 19 deficit of £18.7m at 31 March 2020 (2019: £20.0m). The decrease in the liability is mainly due to lower inflation (RPI) assumptions and the ongoing deficit contributions of £1.5m made by the Group during the year offset by an increase in the scheme's cash commutation factors. The triennial funding valuation of the scheme will be carried out in 2021, 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 2020, ROCE was 17.2 per cent (2019: 15.7 per cent), which exceeds the Group's target of 10 per cent through the economic cycle.

Cash flow

	2020	2019
Operating cash flow (before working capital movements)	**£30.2m**	£25.8m
Cash generated from operations	**£28.0m**	£18.0m
Operating cash conversion	**81%**	50%
Net funds**	**£16.4m**	£25.1m

** 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 £16.4m (2019: £25.1m). Net funds at 31 March 2020 comprised cash of £44.3m offset by borrowings under the Group's revolving credit facility ('RCF') of £15.0m and the outstanding term loan of £13.1m for the Harry Peers acquisition.

Operating cash flow for the year before working capital movements was £30.2m (2019: £25.8m). Net working capital increased by £2.2m mainly due to the impact of increased levels of activity (and step up in revenues) in the second half of the year, offset by the partial unwinding of the large working capital outflow from the previous year. Excluding advance payments, year-end net working capital represented approximately three per cent of revenue (2019: four per cent). This is 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 81 per cent (2019: 50 per cent) of underlying operating profit (before JVs and associates) into operating cash (cash generated from operations less net capital expenditure).

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. Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices will continue to be an area of focus.

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 acquisition, a new amortising term loan of £14m was established as an amendment to the existing RCF. This loan also matures in October 2023. The RCF remains subject to two financial covenants, interest cover (>4×) and net debt to EBITDA (<2.5×), and an additional financial covenant, cash flow cover, which has been included following the drawdown of the new term loan. The Group operated well within these covenant limits throughout the year ended 31 March 2020. Overall cash headroom exceeded £50m at 31 March 2020.

Our financial performance

IFRS 16

IFRS 16 'Leases' became effective for the Group from 1 April 2019. The profit before tax impact of IFRS 16 during the year was not material and represented a credit of £0.4m to underlying operating profit and a finance expense of £0.4m on lease liabilities. As at 31 March 2020, the Group has recognised right-of-use assets of £10.1m, lease liabilities of £11.2m, and associated deferred tax assets of £0.2m. The adoption of IFRS 16 will not impact the Group's banking covenants as the calculations are prepared based on the accounting treatment required under IAS 17, the previous lease accounting standard.

COVID-19 – focus on cash preservation

To mitigate the financial impact of COVID-19 and to protect the Group's cash position, the following precautionary actions have been implemented:

- The deferral of all non-essential and uncommitted capital expenditure, together with restrictions on discretionary operating expenditure;
- Tight management of working capital whilst continuing to support supply chain partners;
- Taking advantage of the opportunity to defer tax payments including PAYE, NIC and VAT;
- The agreement with the Group's lenders to defer quarterly term loan repayments (due in March and June) until September 2020; and
- The drawdown of all available amounts under the RCF facility (£15m) to provide the Group with control over its own cash resources.

At this early point in our financial year it is impossible to predict the full extent of the financial impact of COVID-19 over the course of the year and a wide range of profit and cash outcomes are possible. We have modelled a broad range of scenarios including a 'base case' scenario (which captures the Group's most up-to-date 'realistic' forecast position), a 'severe but plausible' scenario (the impact on the 'base case' of a three month delay in our expected (unsecured) orders) and a 'worst case' scenario (the combined impact of securing no further orders for the next twelve months and a second lockdown in the second half of the 2021 financial year). There are many assumptions that sit behind these scenarios, above and beyond the duration of the different stages of lockdown, and there is not necessarily a linear relationship between the duration of COVID-19 and the impact on revenue and costs. However, even in our 'worse case' scenario, with our strong balance sheet, we are confident that we have sufficient cash and committed funding in place to meet our obligations for the foreseeable future.

Impact of Brexit

Following the UK's departure from the European Union ('EU') in January 2020, there is continuing uncertainty concerning the UK government's negotiations on a trade deal and future co-operation with the EU. The Group has taken steps to prepare for the potential outcomes in December 2020 of these trade negotiations and has plans in place to ensure it can continue to deliver on current and future contractual commitments.

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 potential impact of COVID-19 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 2020 and is expected to continue doing so in the 2021 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 covenants attached to them.

Based on the above, the financial statements have been prepared on a going concern basis. In reaching this conclusion, the directors have reviewed liquidity forecasts for the Group, which have been updated for the expected impact of COVID-19 trading activities. The directors also considered sensitivities in respect of potential downside scenarios and the mitigating actions available in concluding that the Group is able to continue in operation for a period of at least 12 months from the date of approving the financial statements.

Adam Semple
Group finance director

17 June 2020

Viability statement

In accordance with the UK Corporate Governance Code (the 'Code'), the directors have carried out a robust assessment of the principal risks and uncertainties and assessed the Group's viability over a three-year period ending on 31 March 2023. The directors have determined that this three-year timescale, which is unchanged from 2019, is appropriate for the following reasons:

- This period is consistent with that used for the Group's annual strategic planning process, and reflects the directors' best estimate of the future prospects of the business;
- The programmes associated with the majority of the Group's most significant construction contracts, the execution period of which is normally less than three years;
- The directors considered whether the assessment period of three years should be revisited in light of COVID-19. However, given the outcomes of the modelling below, our current strong balance sheet, 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 time frame remained appropriate.

In making their assessment, the directors took account of the Group's strategy, current strong financial position, forward order book of £271m, recent and planned investments, the Group's main committed bank facilities (which mature in October 2023) and potential sources of additional government funding for which the Group is eligible.

The COVID-19 outbreak has developed rapidly in 2020, with lockdown restrictions implemented in the UK and Europe in an effort to curtail the spread of the virus. For our assessment of going concern (which covers a 12-month period), we have modelled a broad range of COVID-19 related scenarios including a 'base case' scenario (which captures the Group's most up-to-date 'realistic' forecast position), 'a severe but plausible' scenario (the impact on the 'base case' of a three-month delay in our expected (unsecured) orders), and a 'worst case' scenario (the combined impact of securing no further orders for the next 12 months and a second lockdown in the second half of the 2021 financial year).

The directors have also assessed the potential financial and operational impact of other 'severe but plausible' scenarios resulting from the crystallisation of one or more of the principal risks described in the annual report which include recent issues (such as COVID-19, the uncertainties caused by the UK government's ongoing negotiations on a trade deal and future co-operation with the EU and recent corporate failures) that are relevant to the industry sector in which the Group operates. In particular, the impact of 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 caused by e.g. a further period of COVID-19 related lockdown) and a significant one-off event resulting in a cost to the Group of £15m. 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.

Based on this assessment, 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 a market leader in structural steel, we recognise that operating in a 'Smarter, Safer, more Sustainable' manner is crucial to both the current and future success of the Group.

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. Our **'Smarter, Safer, more Sustainable'** business improvement programme underpins the Group's business model and strategy, and enables us to operate as a responsible, sustainable business for the benefit of all our stakeholders. We believe that investing in our improvement projects, 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.

We continue to develop smarter ways of working that enable us to be more effective and focus on the things that matter and in 2020, our sustainability policy was published by the Group's sustainability committee in line with our commitments to health and safety, environment, the economy and our people. Meeting quarterly, the committee discusses new initiatives and innovations that can minimise the impact of our activities on the environment. The committee's principal role is to review the Group's sustainability strategy, ensuring it is aligned with the Group's vision, mission, strategy and values.

At the heart of our sustainable business strategy is our intention to focus on the following priorities, namely our safety, health and environmental strategic goals, the development and engagement of our people and our impact on our community.

Our safety, health and environment strategy

A principal aim of the board is to continue to ensure that, through example and encouragement, 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 employees and wider stakeholders. 'Safety first' remains a core value for the Group being vital to our continued success and a key differentiator in the market, both to our clients and to our employees. This has been particularly important during the COVID-19 pandemic where we have continued to run our operations safely and in line with the guidelines issued by the Construction Leadership Council, Public Health England and by the UK and local governments.

During the year, our continued focus on the Group's values ensures all aspects of safety, health and environment remain a fundamental and integral aspect of the business. Our executive committee continues to review safety performance monthly. Investigations are completed on all RIDDORs (a reportable accident that results in an employee'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 relevant business unit managing director. Findings from investigations and ‘lessons learned’ are shared Group-wide to promote a collaborative approach to preventing accidents and incidents.

We have, once again, achieved our Group safety targets for the year. The Group’s accident frequency rate (‘AFR’), including our Indian joint venture, was 0.15, which continues to outperform the industry average. This represents a slight increase from the prior year AFR of 0.11, but this was not wholly unexpected given both the significant improvement in the AFR in 2019 (the 2018 AFR was 0.22) and the increased Group activity levels in 2020. During the last year, we have shifted our focus to the Group’s injury frequency rate (‘IFR’), rather than only on the AFR, which is a fairly narrow metric based on the level of RIDDORs only. Instead, IFR focusses on a variety of incidents, ranging from minor to potentially more serious, which allows us to learn lessons from each individual case and to identify process improvements and prevention measures. The Group’s IFR has reduced over the course of the year, with targeted reductions in almost all areas of the business.

Our people strategy

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. We are committed to creating a great place to work, to attract, recruit, retain and develop an inclusive, talented workforce who live and breathe our values at every level of our business.

The development, engagement and satisfaction of our people is a key focus of the Group and is fundamental to our success. We seek to develop an inclusive, diverse workforce, treat all employees fairly, uphold their rights and reward them competitively.

In the year, we have continued to invest in our employees’ development and training, and we have increased our focus on stakeholder engagement including with our employees. We are committed to refreshing our people strategy next year in tandem with launching our Group-wide renewed sustainability strategy.

Building a sustainable business

SAFETY, HEALTH AND ENVIRONMENT

Our health and safety policies are underpinned by four main aims, namely a fair and safe way of working, no incidents that harm people, industry-leading occupational health and carbon footprint reduction. These establish the areas that are essential to achieving our main goal, namely, to ensure that all employees enjoy a safe working environment, with no exceptions.

01

Strategic aim

A fair and safe way of working

Relevant stakeholders

Our people, our suppliers and subcontractors, and our clients and partners.

The challenge

To ensure that the safety culture within the business continues to evolve and improve, positively impacting the working environment and reducing the harm to our people.

Our response

Leadership, communication, and engagement with our stakeholders, alongside a robust training programme, underpins the Group's safety culture.

We continue to recognise positive safety, health and environmental ('SHE') practices across the Group through articles, case studies and awards in our internal newsletters and employee magazines. Our behavioural safety coaches are encouraged to give positive recognition to those who are improving the safety culture in their departments.

In November 2019, we held our inaugural safety awards to celebrate positive safety behaviours and initiatives by our employees, apprentices, and teams within all our businesses. Owing to the success of the event it will now become an annual occasion.

Our 'just and fair' culture within the behavioural safety programme continues to be underpinned by our six life-saving rules (which include rules for working at height, lifting operations, machine safety, vehicle movements and material stability). The rules clearly communicate to all relevant stakeholders our expectations around high-risk areas of our day-to-day operations to further prevent incidents.

Our health and safety management system is also continually reviewed and improved. The Group's SHE management system conforms to BSEN ISO 45001, and is one of the first in the industry to successfully make the migration from OHSAS 18001.2018. We are also working with specialists to develop web-hosted reporting systems. These will improve efficiency in reporting, notification, investigation and corrective action for health, safety, and environmental events.

02

Strategic aim

No incidents that harm people

Relevant stakeholders

Our people, our suppliers and subcontractors, our clients and partners and shareholders.

The challenge

Operating within the construction industry means many of our activities could be potentially dangerous to our employees and wider stakeholders. If risks are not appropriately identified, monitored and mitigated, these could result in harm to the Group's key stakeholders.

Our response

We continue to improve the facilities and working environment in all our factories in addition to engaging with our clients to improve site conditions and working areas. In response to the new guidance and regulations on weld fume management, during the year we set up a focus group, to ensure that we were challenging long-established working practices and that we had a robust process and plan in place to make any necessary changes to support the health and safety of our people. As a result of this review, we have approved further investment in our factories to ensure that weld fumes are being appropriately managed.

Our bespoke behavioural safety programme continues to be integral to our culture change. We offer expert one-to-one coaching on how best to deal with both positive and negative situations.

During 2020, our programme focussed on aspects of ownership and accountability for our senior managers. These sessions were run with the aim of encouraging our senior managers to take responsibility of key safety messages and sustain focus on behavioural safety. In the second half of the year, Severfield also initiated the first subcontractor safety day. All our subcontractors were invited to join us and learn about our safety culture and how integral they are to the continued success of the Group's safety programme. Working together with our subcontractors led us to further understand each other's expectations and how we could take a joint approach in promoting our 'safety first' core value. We are also planning to extend this programme into other areas of our supply chain.

Health and safety risks identified are mitigated though the continual review of the Group's procedures and processes. Our executive committee continues to review safety performance monthly. Board members continue to attend safety-focussed site visits, encouraging employees to suggest improvements and share best practice. These visits have shown a clear commitment and drive for SHE policies across all areas of the business, led by our executive management team.

Our focus for 2021 is to continue to develop our workforce and subcontractors, driving positive change to the health and wellbeing of our stakeholders. We will launch our Group training and development brochure, advertising the wide range of courses we offer to promote each individuals' career development.

Building a sustainable business

03

Strategic aim

Industry-leading occupational health

Relevant stakeholders

Our people

The challenge

To continually support all our employees, and their families, in all aspects of their lives, not just within working hours.

Our response

Our employees' health and wellbeing is of utmost importance to us and we have implemented a range of initiatives to assist in the promotion of positive general and mental health. We signed the Building Mental Health Charter in 2018, pledging to raise awareness and promote mental health. Internally, we have recruited and trained almost 60 mental health first aiders who are now equipped to spot the signs of poor mental health and signpost for assistance where required. The success of this campaign has been demonstrated by the fact that many employees have requested to undertake the training since being made more aware of mental wellbeing.

Our 24-hour confidential employee assistance helpline provides support for a range of common concerns including financial worries, family issues and much more. Initiatives such as this one have become even more important following the outbreak of COVID-19 to help provide assistance to those employees and their families during these uncertain times.

We continue to proactively assess our occupational health provision and management to ensure it is robust and effectively designed. This will reduce healthcare costs, increase productivity, reduce absenteeism, enhance employee morale and help to attract and retain high-quality employees.

04

Strategic aim

Carbon footprint reduction

Relevant stakeholders

Our communities, our people, our suppliers and subcontractors, and our clients and partners.

The challenge

Climate change issues have become more prevalent in recent years for all our stakeholders and working within the construction industry, we recognise that our activities can impact the wider environment.

Our response

The Group is committed to addressing climate risk and reducing the lifetime emissions of the assets it builds. Carbon reduction is an important objective of our health and safety strategy, and it forms part of our wider Group sustainability policy. We are committed to reducing our greenhouse gas emissions and energy usage and we are proud of our achievements during the year in managing these. The improvements initiated in the year include the switch to 100 per cent green electricity at our two largest production facilities and a reduction in our scope 1 and scope 2 greenhouse gas ('GHG') emissions to 29.8 tonnes of CO_2e/£m revenue compared to 33.5 in 2019 (see section on greenhouse gas reporting below).

In 2020, we maintained our 'B' rating in the global evaluation standard, the Climate Disclosure Project ('CDP'), and also received an 'A-' in their new supplier engagement rating, considerably outperforming the industry average of 'D'. The 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 reported data. It assesses the completeness and quality of the Group's measurement and management of our carbon footprint, climate change strategy, risk management processes and outcomes.

The Group continues to be accredited with the Gold Membership Standard of the Steel Construction Sustainability Charter.

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.

CDP

Greenhouse gas emissions reporting

We continued to report the Group's GHG emissions in accordance with UK regulations and the GHG Protocol Corporate Accounting and Reporting Standard methodology. Our reporting boundary remains all material scope 1 and scope 2 emission sources within the boundaries of our consolidated financial statements, verification of which is undertaken against ISO 14064-3 by Carbon Trust. We have also monitored scope 3 emissions associated with raw materials, waste, water, business travel and product transportation.

In 2020 we came to the end of our five-year reduction target period, in which we committed to reducing our scope 1 and scope 2 emissions by 20 per cent. We exceeded this target by reducing our emissions by 21.4 per cent during this period.

In the year, our combined scope 1 and scope 2 GHG emissions, excluding the newly acquired Harry Peers subsidiary, have increased by 1.4 per cent and our energy usage increased by 8.9 per cent, reflecting the Group's higher production activity.

For the year ended 31 March 2020, the Group's global GHG emissions, using a location-based approach, and energy usage were as follows:

	Tonnes of CO_2e	
GHG emissions from:	**2020**	2019
Scope 1 – combustion of fuel and operation of facilities	**5,635**	5,561
Scope 2 – electricity, heat, steam and cooling purchased for own use	**3,696**	3,641
Total CO_2e emissions	**9,331**	9,202
Intensity measurement:	**2020**	2019
Absolute tonnes equivalent CO_2e per £m of revenue	**29.8**	33.5
Energy usage from:	**2020**	2019
Scope 1	**22,372**	20,959
Scope 2	**14,460**	12,861
Total MWH	**36,832**	33,820

We will continue our relentless focus on safety, health and environmental issues, ensuring that through example and encouragement, we operate ethically and responsibly in everything we do.

Sustainability committee

The committee's principal role is to review the Group's sustainability strategy, ensuring it is aligned with the Group's vision, mission, strategy and values. During the year, the committee published the Severfield sustainability policy, which includes the followings targets:

- Carbon reduction policy and strategy embedded in the SHE strategy;
- Reduction in carbon intensity by 2021;
- Waste reduction and diversion of waste from landfill;
- Quarterly greenhouse gas reporting using shared database and validation of emissions;
- Customer and supply chain engagement;
- Staff engagement and internal performance reporting; and
- Sustainable procurement with accreditation to ISO 6001.

We have a new sustainability strategy in development for 2021, as we aim to further reduce our carbon emissions, working collaboratively with customers, industry, and the supply chain. The strategy will reflect our sustainability policy established within the year, focussing on all four pillars within the targeted areas of development and reduction.

Building a sustainable business

OUR PEOPLE

Our focus during the year has been on delivering against four strategic aims as follows:

01

Strategic aim

Attract the best and brightest talent

Relevant stakeholders

Our people, our clients and partners and our shareholders.

The challenge

We want to attract, retain and develop the right people at all levels as they are fundamental to our Group's success. We strive to be a Group where bright, talented people with purpose can grow both themselves and our business.

Our response

Underpinning our culture of continuous improvement is the ongoing focus on human resources and the training and development of our people and attracting and retaining the highest calibre of workforce remains fundamental to the Group's strategy. During the year, we have continued to invest in our workforce and have increased our headcount to around 1,400 employees, which includes 61 employees who joined us with the Harry Peers acquisition. Throughout the year, we have strengthened a range of disciplines across the Group, including within our manufacturing operations team at Dalton.

During the year, we welcomed the appointment of Louise Hardy, our first female board member. Louise brings to the Group a wealth of relevant experience in the delivery of complex infrastructure projects and experience as a non-executive director of other publicly listed companies.

Our focus has been on promoting our graduate and apprenticeship schemes. Given the nature of the technical skills required in our business, it is essential that we invest in the development of our apprentices so that they are ultimately recognised as our talent for the future. In 2020 we had 33 colleagues successfully complete their apprenticeship, with a further 30 starting throughout the year, demonstrating our continued commitment to developing our people.

We have successfully on-boarded our first four apprentices following our work with the Institute for Apprenticeships, through which we collaboratively developed a metal fabricator apprenticeship programme under the government's Trailblazer apprenticeships. We identified the need for a level three metal fabricator apprenticeship, equivalent to A level, and a Trailblazer group was formed, working with training partners and leading industry representatives to develop a new apprenticeship standard that would meet the needs of industry employers.

A full review of our apprenticeships will be carried out in 2021 to look at how we further maximise the apprenticeship levy and ensure we have the skills our business needs for the future.

02

Strategic aim

Engage and manage our people to perform their best every day

Relevant stakeholders

Our people, our clients and partners.

Our response

We maintain regular communications with all our employees and actively encourage them to share their thoughts and feedback.

In 2020, we have continued to develop of our employee engagement processes, predominantly through our internal communication channels. Our monthly Steel Reel newsletter and our quarterly employee magazine, Skyline, are available to all employees across all our locations. We use this medium to promote and celebrate the skills and achievements of our people, including the numerous accreditations awarded to our project teams during the year at the 2019 Structural Steel Design Awards and the 2019 Institute of Structural Engineers' Structural Awards.

During the latter stages of the financial year, we launched our new Group-wide intranet, to enable us to keep in touch with all our employees. This was even more important following the outbreak of COVID-19 to update a large number of colleagues who were working from home.

The Group currently operates a share incentive plan and a Save As You Earn ('sharesave') scheme to enable our people to share in the future and continued success of the Group and we intend to launch a further employee Save As You Earn scheme in 2021.

Our focus for 2021 will be to undertake a comprehensive workforce engagement programme to gain a deeper understanding of our colleagues' perspectives and to refresh our purpose and vision.

03

Strategic aim

Reward and recognise those who demonstrate our values

Relevant stakeholders

Our people and our communities.

The challenge

To ensure that working for Severfield is an attractive option for local people, which offers good, secure employment opportunities to all members of the community.

Our response

Our people are the heart of our business and to ensure individuals develop and maximise their full potential, we are committed to creating a culture that respects equality, fairness and diversity across all levels and locations. We are confident that we have developed a culture of equal pay. We offer attractive working environments and remuneration packages which include annual bonus schemes (linked to the Group's profit and safety performance) and participation in long-term incentive plans to ensure alignment with the Group's strategic objectives.

All of our colleagues are eligible to participate in the Severfield plc defined contribution pension scheme. Colleagues also have the option to make their own contributions through salary sacrifice. We continue to offer the collective benefits that become available through the Group's participation in schemes such as cycle to work, childcare vouchers and a discount scheme.

04

Strategic aim

Develop, grow and lead our people to continually improve their skills and become strong leaders

Relevant stakeholders

Our people and our clients and partners.

The challenge

To support our people to achieve excellent performance and continually develop their skills and become strong leaders and managers.

Our response

We are committed to investing in the training and development of our people.

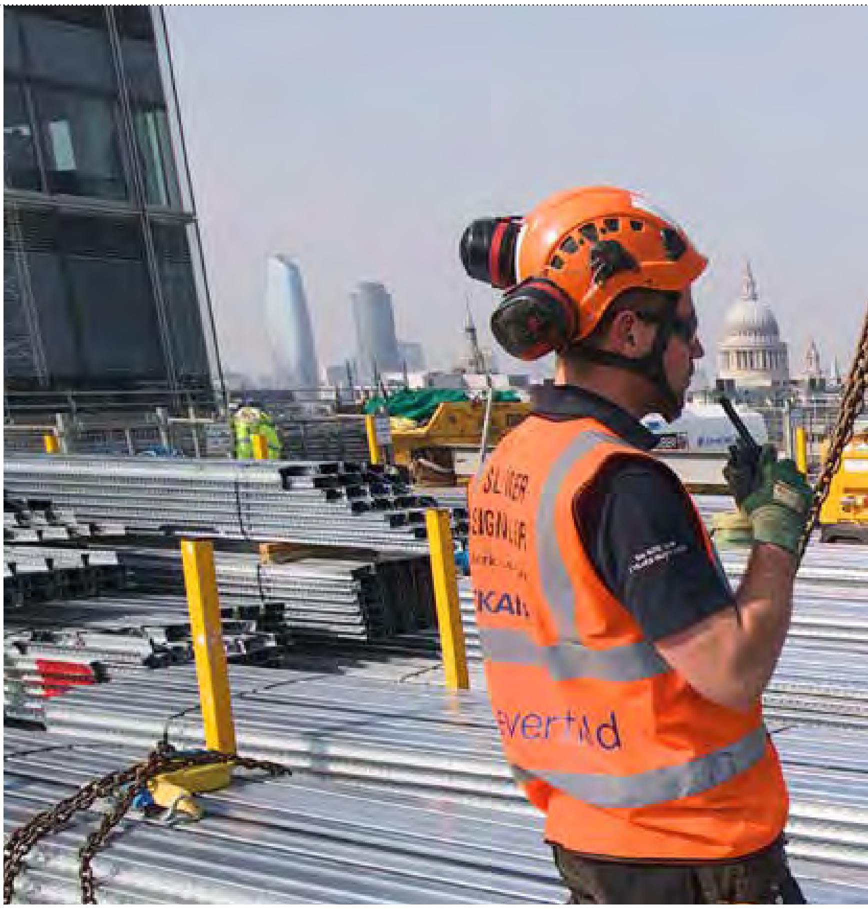
We recognise the importance of training and developing our people further, especially considering the skills shortage within the construction industry. We offer National Vocational Qualifications to a vast majority of our workforce, the administration and co-ordination of which is dealt with by an in-house 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.

We have also continued to develop and support our people to apply Lean manufacturing techniques, achieve new qualifications, increase their skills and knowledge and develop their careers with the Group.

Our leadership and talent programmes are now well established at various levels within the business, including the Severfield development programme, which brings together talent with potential for future senior roles. In the second cycle of the Severfield development programme, 13 future leaders from across the business were invited to attend the course, delivered by an external consultant who specialises in running learning and development programmes worldwide. A total of 15 days of development is offered across three modules which focus on a wide range of areas including building self-awareness, how to lead and engage others, understanding markets and strategy and how to influence change and innovation. Following the success of our Severfield development programme, during the year, we launched our 'early careers' initiative to stimulate and promote the growth of those who are in the early stages of their career.

Building a sustainable business

BUSINESS INTEGRITY



Equal opportunities and diversity

Good employee relations, welfare, engagement, and diversity & inclusion are recognised as important issues for the Group. We are an equal opportunities employer and are committed to encouraging diversity & inclusion and eliminating discrimination in both our roles as an employer and as a provider of services. We aim to create a culture that respects and values each other's differences, that promotes dignity, equality and diversity, and that encourages individuals to develop and maximise their potential. We are committed, wherever practicable, to achieving and maintaining a workforce that broadly reflects the communities in which we operate. We continue to monitor our recruitment and promotion policies and practices to ensure that they are free of bias and discrimination.

The construction industry continues to be male-dominated, particularly in senior leadership roles that attract higher levels of pay, and this is reflected in our latest gender pay gap report, which we published in April 2019 for our two business units that are in scope of the legislation. Our report shows a median gender pay gap of 20.6% (Severfield (UK)) and 16.1% (Severfield (NI)) and we are pleased that the median for both Severfield (UK) and Severfield (NI) has seen significant improvement in the year due to an increase in the number of females recruited in more senior roles. Overall, Severfield employs 9 per cent of women across the Group in a wide variety of roles.

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.

Severfield considers its responsibilities regarding modern slavery with the utmost importance. The duties placed on us by the Modern Slavery Act are such that we make a public statement regarding the steps we have taken to minimise the possibility of slavery or human trafficking happening within our businesses or supply chain. Details of our approach to managing these risks can be found in our Modern Slavery Act transparency statement on the Company's website.

General Data Protection Regulations ('GDPR')

The harmonisation of data protection legislation across Europe through GDPR is designed to protect all EU citizens' data privacy. We take our obligations under this legislation seriously, and as such, have a number of practices in place to ensure the careful handling of individuals' personal information.

Innovation

The Group is committed to collaboration, working towards the achievement of our customers' objectives as well as our own.

We are focussed on continually improving our offering to our customers, through developing innovative products and services, which will deliver 'Smarter, Safer, more Sustainable' outcomes and create additional value for our stakeholders. This requires agile and dynamic employees who are skilled in new and emerging digital technologies and are prepared to challenge conventional processes. We are committed to upskilling our people or recruiting new talent to meet this challenge.

During 2020, our focus has been on researching and developing new initiatives and innovations that can minimise the impact of activities on the environment, increase our application of Lean manufacturing techniques and further optimise our factory processes to enhance our operational efficiency and drive future margin growth.

We continue to devote skilled resource to reviewing and responding to developing technologies (including virtual reality and digital technologies). We have a centralised IT team dedicated to ensuring our IT environment is secure, giving us the confidence to invest in new technology and respond to IT risks. In 2020, we have continued the roll-out of

new software including data analytics, 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. We are also continuing to take steps to improve the integration of key systems, better automate workflows and, as part of our digital transformation initiative, reduce our reliance on paper-based information to facilitate more efficient ways of working. In addition, through our engineering forum, we have improved our approach to design, looking at new and innovative ways of working, including the use of enhanced BIM (3D) modelling.

Quality and accreditations

The Group is committed to providing our clients with the best possible service and protecting our workforce and to support this we have developed a range of appropriate management systems. Each system is managed in-house and regulated through external third-party assessment certification using recognised bodies. This gives us the confidence that customer requirements are recognised and delivered as well as providing the reassurance that we are properly trained and qualified to carry out our contractual and partnership obligations.

Quality (including welding quality systems), environmental, and health and safety management systems are approved by the BCSA, Steel Construction Certification Scheme ('SCCS') and The Welding Institute ('TWI'). Additionally, our information management systems are certified by The British Standards Institute ('BSI') and registration under the Qualified Steelwork Contractors Scheme provides extra confidence to our customers.

All of the Group's manufacturing facilities are CE marking compliant (certified to BS EN 1090:2) to meet the requirements up to Execution Class 4.

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. Dementia is the UK's biggest killer, recently overtaking heart disease. Last year, the disease claimed the lives of over 70,000 people and as yet there is no known cure. Around 850,000 people in Britain are living with dementia, which is expected to rise to over one million by 2025, with the majority having Alzheimer's disease – the most common type. This two-year partner-relationship is due to end in 2021, when we will engage with our colleagues to take suggestions on which charity the Foundation will partner with next.

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, St Catherine's, Thirsk Community Care, Yorkshire Air Ambulance and York Mind.

The Foundation remains committed to work with, and support, its chosen national charity by raising funds, spreading awareness and by taking part in volunteering opportunities. This includes events such as the Great North Run, London to Paris Cycle, the Great North Swim and skydiving.

In addition to the charitable activities offered through the Group, we also encourage our employees to take part in their own fundraising events, supporting charities close to their hearts, and the Severfield Foundation aims to support such activities where possible.

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 2020

COVID-19

The impact of the COVID-19 pandemic on the Group became an emerging risk in Q4 of FY20 and is now a principal risk (see specific 'COVID-19' risk below). We have implemented our business continuity plans and our 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. To date we have coped well with the challenges presented by COVID-19. Our factories are operational and, after some temporary interruptions, all of the Group's construction sites are open. Strict precautions are in place in both factories and sites including enhanced levels of cleaning, additional hygiene facilities and social distancing. During the crisis we are holding regular update calls with our executive team and board focussing on the impact of the crisis on the Group.

Brexit

The risks associated with Brexit remain due to there being no clarity on the long-term trading relationship with the EU. Although the UK entered the standstill transition period on 31 January 2020, uncertainty over the longer-term trade issues could remain until 31 December 2020 and potentially beyond. We have amended our principal risk descriptions accordingly (see 'commercial and market environment' below). We continue to monitor developments closely and specific risks and related mitigations are kept under review by the executive committee.

Cybersecurity

Another area of focus has been cybersecurity risk and we have continued to invest in additional security to seek to mitigate the risk and impact of a significant security breach.

Our future priorities for 2021

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

- Continued development and implementation of plans to ensure the best possible outcomes to the uncertainty created by the COVID-19 crisis;
- Continued identification and mitigation of environmental, social and governance ('ESG') risks; and
- Continued focus on staff engagement and culture in order to maintain good industrial relations.

Changes to principal risks

The following changes have been made to the Group's principal risks in 2020:

- **COVID-19 risk** (the effect of the disease itself 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) was added as a new risk to our Group risk register in 2020 and has been classified as a high 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. In its risk reviews, the Group has not identified any significant environmental, social or governance risks to the Group's short and long-term value.

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 the ever-changing nature of the risks that we characterise as 'COVID-19', 'information technology resilience' and Brexit risk, classified within 'commercial and market environment'.

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. Regular updates are being made to our risk management of the COVID-19 crisis.
- 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 chief executive officer, Group legal director and Group IT director meet on a quarterly basis to review IT 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, 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

Committees

- Executive committee, risk committee and safety leadership team
- Audit committee
- Nominations committee

Third line of defence

Independent review

Divisional boards

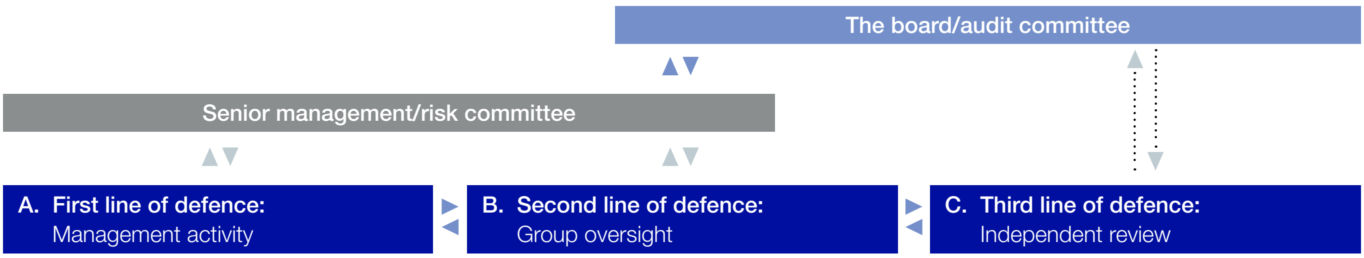
Internal controls:

- 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.

In 2020 we continued the roll-out of our project risk management framework ('PRMF') to ensure consistency and good practice across the Group in managing project risk.

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. This continues to give further assurance as to the Group's resilience to cyber risk, which is a subject that has also been discussed 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.

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 Commercial and market environment	Growth, Clients, Operational excellence, People	1 2 3 4 5 6	No change	High
3 COVID-19	Growth, Clients, Operational excellence, People, India	1 2 3 6 7	New	High
4 Information technology resilience	Growth, Clients, Operational excellence	1 2 4 5	No change	Medium
5 Mispricing a contract (at tender)	Growth, Clients, Operational excellence	1 2 3 4 5 6	No change	Medium
6 Failure to mitigate onerous contract terms	Growth, Clients, Operational excellence	1 2 3 4 5	No change	Medium
7 Supply chain	Growth, Clients, Operational excellence	1 2 3 4 5 6	No change	Medium
8 Indian joint venture	India	2 5	No change	Medium
9 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.


Severfield
SIGNALLER

How we manage risk

2020 principal risks

Scoring High Medium

Health and safety

1

Movement and scoring

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 and 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.

Commercial and market environment

2

Movement and scoring

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 exit from the EU) and the impact of pandemics (including the ongoing COVID-19 outbreak).

The impact of the COVID-19 pandemic was unforeseen and has affected the whole of the manufacturing, engineering and construction sector (see separate COVID-19 risk on page 8). The risks associated with Brexit remain due to there being no clarity on the long-term trading relationship with the EU. An unfavourable outcome from the ongoing trade negotiations could adversely impact investor and customer confidence.

Lower than anticipated demand (including as a result of COVID-19) 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

- The mitigating actions undertaken by the Group in response to COVID-19 are set out in the specific 'COVID-19' risk on page 82.
- The Group closely monitors Brexit developments and specific risks and related mitigations are kept under review by the executive committee. We have taken steps to prepare for the various potential outcomes of the ongoing trade negotiations with the EU and have plans in place to ensure we can continue to deliver on current and future contractual commitments.
- 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).
- Development of a pipeline of opportunities in continental Europe and in the Republic of Ireland, supported by our European business venture.
- 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.

How we manage risk

2020 principal risks (continued)

Scoring High Medium

COVID-19

3

Movement and scoring

Description

The recent outbreak and global spread of COVID-19 may 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.

Governments and public bodies in affected countries have introduced temporary emergency public measures such as travel bans, quarantines and public lockdowns. Should these continue for an extended period of time, they would increase pressure on the operations of the Group.

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 the Group's longer-term viability.
- We have implemented a number of precautionary actions including the deferral of all non-essential and uncommitted capital expenditure, together with restrictions on discretionary operating expenditure, tight management of working capital and the deferral of certain tax and quarterly term loan repayments.
- Our management teams have implemented specific actions to minimise the disruption on our operations during these challenging times. Our business continuity plans have been mobilised and additional measures have been implemented including changes to procedures at factories and sites (hours worked, additional security, hygiene and social distancing measures), undertaking revised risk assessments in all operating locations to ensure we could continue to operate safely, changed methods of travel to and accommodation at sites and extending support to employees at increased risk.

Information technology resilience

4

Movement and scoring

Description

Technology failure, cyberattack or property damage 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 avoid interruptions, 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. If the Group fails to invest in its IT systems, it will ultimately be unable to meet the future needs of the business and fulfil its strategy.

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 focussed 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.
- Cybercrimes 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 with revised cover being purchased in 2019 and 2020 to reduce the financial impact of this risk.

Mispricing a contract (at tender)

5

Movement and scoring

Description

Failure to accurately estimate and evaluate the contract risks, costs to complete, contract duration and the impact of price increases could result in a contract being mispriced. Execution failure on a high-profile contract could result in reputational damage.

Impact

If a contract is incorrectly priced, particularly on complex contracts, this could lead to loss of profitability, adverse business performance and missed performance targets.

This could also damage relationships with clients and the supply chain.

Mitigation

- Improved contract selectivity (those that are right for the business and which match our risk appetite) has de-risked the order book and reduced the probability of poor contract execution.
- Estimating processes are in place with approvals by appropriate levels of management.
- Tender settlement processes are in place to give senior management regular visibility of major tenders.
- Use of the tender review process to mitigate the impact of rising supply chain costs.
- Work performed under minimum standard terms (to mitigate onerous contract terms) where possible.
- Use of Group authorisation policy to ensure appropriate contract tendering and acceptance.
- New Group-wide project risk management framework ('PRMF') brings greater consistency and embeds good practice in identifying and managing contract risk.
- Professional indemnity cover is in place to provide further safeguards.

How we manage risk

2020 principal risks (continued)

Scoring High Medium

Failure to mitigate onerous contract terms

6

Movement and scoring

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 have worked 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.

Supply chain

7

Movement and scoring

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 or a breakdown in relationships with a key supplier could result in some short-term delay and disruption to the Group's operations. There is also a risk that credit checks undertaken in the past may no longer be valid.

The sale of British Steel to Jingye Group, China's third largest privately owned steel producer, was completed in March 2020, helping to provide stability to the steel supply market in the UK.

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 a replacement), 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.
- Implementation of best practice improvement initiatives including automated supplier accreditation processes.
- Strong relationships maintained with key suppliers including a programme of regular meetings and reviews.
- Contingency plans developed to address supplier and subcontractor failure.
- Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements, in particular for steel supply.
- Key supplier audits are performed within projects to ensure they are in a position to deliver consistently against requirements.
- Monthly review process to facilitate early warning of issues and subsequent mitigation strategies.

Indian joint venture

8

Movement and scoring

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 is impacting JSSL in 2021. In light of the slow easing of the nationwide lockdown announced by the Indian government in March 2020 and the developing impact of COVID-19 on the Indian economy, JSSL's operations have been disrupted in the first quarter of 2021, a situation which is likely to continue over a period of 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, local management in India have implemented a number of precautionary cash conservation actions and are closely monitoring cash flows and debt repayments, together with adopting specific actions to minimise the disruption on the joint venture operations during these challenging times.
- Robust joint venture agreement and strong governance structure is in place.
- In 2020, senior management team strengthened further, subcontracting capability expanded and workforce upskilled to support expanded operations.
- 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

2020 principal risks (continued)

Scoring High Medium

People

9

Movement and scoring

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.
- Second wave of our Severfield Development Programme delivered in 2020 and the launch of an 'early careers' initiative which builds readiness for more senior positions.
- 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.

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 2020 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. While 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 34 of the strategic report. The board's direct engagement with stakeholders is described on page 105 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

17 June 2020

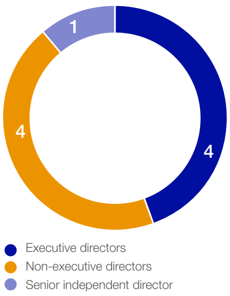
GOVERNANCE REPORT

Our board of directors

Executives and non-executives

The quality of our workforce, senior leadership team and board leave 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

John Dodds

R N

Non-executive chairman

Independent: Yes

Appointed: 2010 (non-executive director) and 2011 (chairman) – not seeking re-appointment at the 2020 AGM

John retired in March 2010 from Kier Group plc, the construction and property services group, after serving for seven years as group chief executive. He worked for Kier, both in the UK and overseas, for nearly 40 years and held a main board position through the employee buy-out process in 1992 and the subsequent flotation of the group on the London Stock Exchange in 1996. John is a non-executive director of Newbury Racecourse plc.

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.

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.

Kevin Whiteman

A N R

Senior independent director

Independent: Yes

Appointed: 2014

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.

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.

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.

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.

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

Non-executive director (chairman of the remuneration committee)

Independent: Yes

Appointed: 2014

Alun was previously Group HR director and board member at WS Atkins plc, where he enjoyed a 28-year career, having held a number of business management and corporate positions. He is a fellow of the Chartered Institute of Personnel and Development. Alun is also a non-executive director of the Port of London Authority, Anchor Trust and Ramboll Group.

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 91

Derek Randall
Executive director and managing director at JSW Severfield Structures

For details see board of directors on page 90

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) on 3 February 2020 taking over from Gary Wintersgill, who had been managing director since 2014, and left the Group in September 2019. Within this role, Rob is responsible for all aspects of contracting business for both Severfield (UK) and Severfield Europe.

Rob Evans joined the Group over 23 years ago and during that time his career has taken him to various corners of the business, including Severfield (Design & Build) and Severfield (NI).

Rob has taken on a range of positions throughout the Severfield business, including numerous roles across quantity surveying and commercial areas of the Group and has worked on many iconic projects, including the Tottenham Hotspur stadium.

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

Mike Mannion 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)

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) on 1 April 2020 taking over from Brian Keys, who had been managing director since 2013, and who has retired from full-time work. Brian has been engaged on a consultative basis so that his extensive experience and skills in production are not entirely lost to the Group.

Adrian McCoy 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 manging director in 2020.

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

Our executive committee

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.

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 IMPLEMENTED THE SIGNIFICANT CHANGES INTRODUCED WITH THE 2018 CODE TO ENSURE THAT STRONG AND ROBUST CORPORATE GOVERNANCE IS 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 LOUISE HARDY TO THE BOARD.

John Dodds
Non-executive chairman

Dear shareholder

I am pleased to introduce, for the last 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 will not be seeking reappointment at this year's AGM but am delighted that Kevin Whiteman, our senior independent director, has been appointed to take my place. I know that Kevin will continue to ensure that effective stewardship and good governance of our Group remains a high priority for the board.

This year we have implemented the significant changes introduced with the 2018 Code to ensure that strong and robust corporate governance is at the heart of everything we do, and we have appointed Louise Hardy to the board. 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.

The Group is committed to business integrity, high ethical values and professionalism in all of the activities it undertakes.

Our corporate governance report is set out on pages 98 to 108 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.

Leadership and board composition

I am delighted that this year we appointed Louise Hardy to the board after the AGM in September 2019. This year we have refreshed our succession planning and are currently reviewing our approach to workforce engagement and culture. As a result, we have not chosen any of the designated workforce engagement models but are defining our own model based on consultation and an analysis of its results.

Board evaluation

During the year, an internal board evaluation was undertaken by Kevin Whiteman, 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 111.

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 98.

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 last approved at the AGM in September 2017 and has been updated this year and will be tabled for approval at our AGM in September 2020. Our remuneration policy, a summary of how we intend to operate that policy in 2021, and a review of the remuneration committee's activities, together with bonus and PSP performance in 2020, can be found in the remuneration report on pages 120 to 130.

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. During the year, we published our third gender pay gap report, which showed that the gap is getting smaller and we have widened our disclosure this year on gender balance to include the tier below our executive committee. 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 attract more women to the business.

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 cannot be held this year in the usual way due to COVID-19 but will be held remotely on 3 September 2020 and I encourage all shareholders to vote via proxy for the resolutions.

John Dodds
Non-executive chairman

17 June 2020

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.

Code principles

Board leadership and company purpose

Read more on page 98

Division of responsibilities

Read more on pages 100 and 101

Composition, succession and evaluation

Read more on pages 114 and 115

Audit, risk and internal control

Read more on page 108

Directors' remuneration report

Read more on pages 120 to 142

Corporate governance report

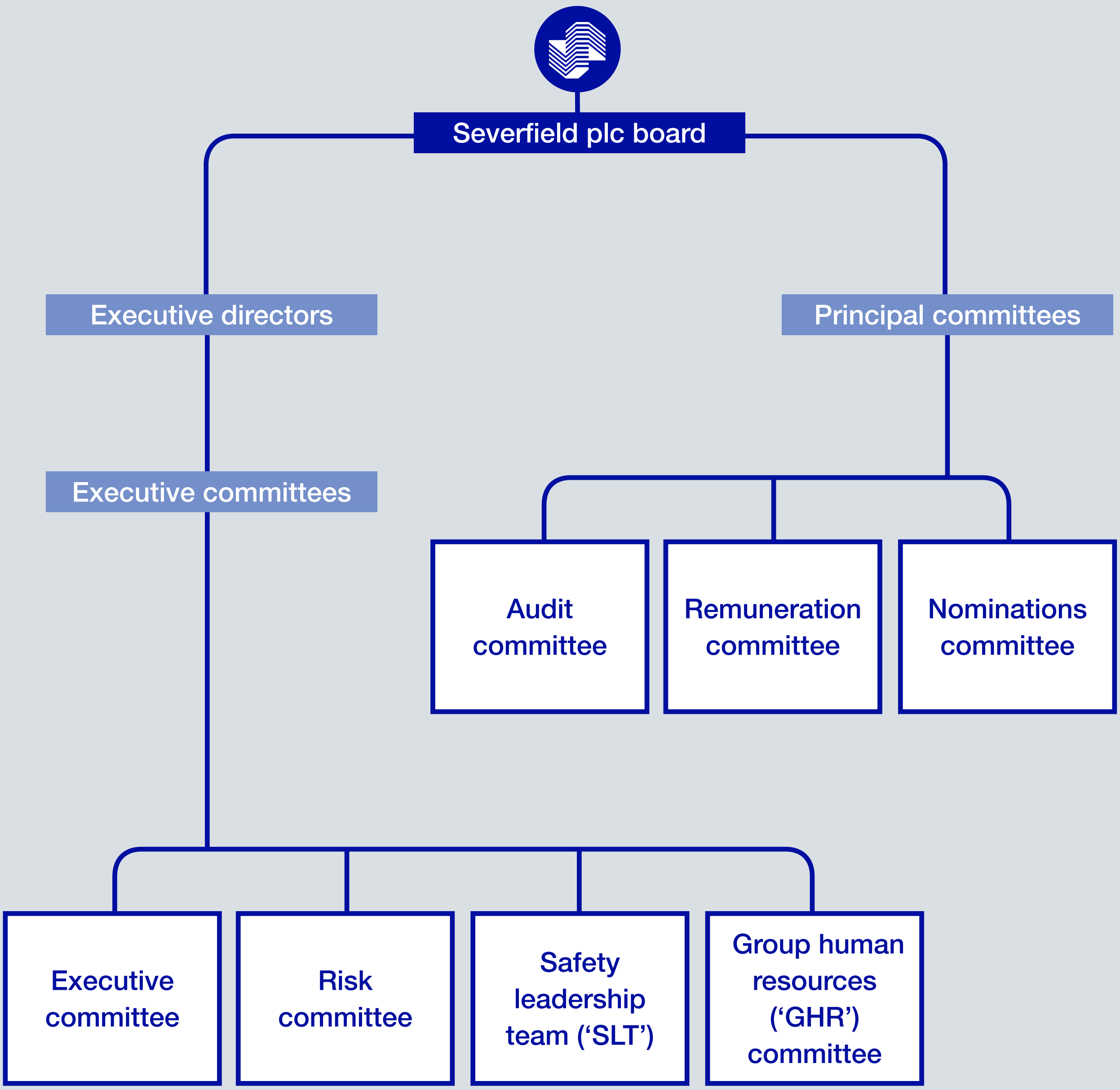
Board leadership and company purpose

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. Five of these directors have been directors for six years or fewer and have been heavily involved in setting and overseeing the delivery of the Group's strategy.

Alan Dunsmore has board-level responsibility for corporate and social responsibility 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 2020 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 138. 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, other than John Dodds who is retiring, will be standing for re-election at the 2020 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.

Corporate governance report

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.

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 below as follows.

Non-executive chairman

John Dodds

The chairman, John Dodds, 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 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 92 to 95. This committee assists the main board by focussing 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 three 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

Kevin Whiteman

Kevin Whiteman 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 110 to 142.

Corporate governance report

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 31 March 2020 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	3	6	5
Executive directors				
Alan Dunsmore	11 / 11			
Ian Cochrane	11 / 11			
Derek Randall[1]	9 / 11			
Adam Semple[2]	10 / 11			
Non-executive directors				
John Dodds[3]	11 / 11		6 / 6	3 / 5
Kevin Whiteman	11 / 11	3 / 3	6 / 6	5 / 5
Tony Osbaldiston	11 / 11	3 / 3	6 / 6	5 / 5
Alun Griffiths	11 / 11	3 / 3	6 / 6	5 / 5
Louise Hardy[4]	6 / 6	2 / 2	3 / 3	2 / 2

Meetings attended   Possible meetings

[1] Derek Randall missed two board meetings when on bereavement leave.
[2] Adam Semple missed one board meeting due to illness.
[3] John Dodds did not attend the two nomination committee meetings which were held to discuss his replacement as chairman.
[4] Louise Hardy was appointed to the board with effect from 3 September 2019 and has attended all meetings whilst she has been a director.

Board meetings are held primarily 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 meetings are also now being held by video conference as a result of the COVID-19 pandemic.

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.

COVID-19 pandemic update

Since the board meeting on 26 March 2020 which focussed entirely on the impact of the COVID-19 pandemic on the Group, the board has held a weekly video call to discuss the continuing impact of the pandemic and the actions being taken to minimise disruption on the Group's operations, people and clients.

Read more about our operations during the COVID-19 pandemic on page 8.

Board meetings for the current year

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

Number of meetings

May 2019

- Strategic review undertaken and strategic plan updated
- Reviewed the statement of compliance in accordance with the Modern Slavery Act
- Reviewed feedback from board evaluation
- Approved further investment for expansion at Construction Metal Forming ('CMF')

2 **June 2019**

- Reviewed and approved annual report and accounts
- Approved proposed final dividend
- Assessed going concern and longer-term viability of the Group

1 **July 2019**

- Presentation from managing directors of Severfield (Products & Processing) and Severfield (Design & Build)
- Meeting with the directors of Severfield (Design & Build) and a tour of the Sherburn factory
- Reviewed feedback on year-end results

September 2019

- Reviewed annual statements of compliance from directors and approved conflicts of interest
- Approved appointment of new non-executive director Louise Hardy
- Presentation from JSSL's HR director
- Approved the acquisition of Harry Peers

October 2019

- Presentations from managing director of Severfield Europe BV and from Group SHE director on sustainability

2 **November 2019**

- Board meeting in Lostock and meeting with directors of Severfield (UK)
- Strategic review of the Indian joint venture
- Presentation on operational improvements from JSSL's chief operating officer
- Site visit to Google, King's Cross project
- Reviewed and approved half year results
- Approved interim dividend

December 2019

- Off-site strategy day

February 2020

- Reviewed investor feedback on interim results

2 **March 2020**

- Dalton factory visit
- Discussed impact on the Group of the COVID-19 pandemic
- Reviewed Group budget for 2021 financial year
- Board meeting in Dublin with presentation from senior management of Severfield (NI) (postponed due to COVID-19)
- Site visit to projects in Dublin (postponed due to COVID-19)
- Agreed scope and content of board and chairman evaluation (postponed due to COVID-19)

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 34 and 35, 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.	Decision to carry on factory and site operations where, after analysis, we could continue to do so safely, particularly in March, April and May (before some easing of the lockdown commenced).	The safety of our colleagues was our primary driver 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.
Proposed acquisition of Harry Peers	Reviewed proposal to acquire entire share capital of Harry Peers.	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.
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.	Approved the four-year strategic plan.	In approving the strategy and business plans, the views of all our stakeholders were considered. Our success depends on good relations with members of our workforce, customers and supply chain.
Setting the annual Group budget and subsequent forecast modelling following the COVID-19 outbreak for going concern purposes	Reviewed Group budgets for FY21 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 and our assessment of the risk of the impact of adverse market conditions (including COVID-19 and an unfavourable conclusion to the Brexit trade negotiations).	The board considered the impact on all stakeholders, in particular those identified in the principal risks section on pages 74 to 86.

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.

During the year we prepared a stakeholder map to identify 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 35.

The board engages directly with the Group's shareholders, workforce and funders, and has undertaken the following activities in 2020:

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, during visits to the Group's head office in North Yorkshire and on an ad hoc basis as required. Feedback from those meetings was reported to the board, including the non-executive directors.

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.

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 focussed 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.

Corporate governance report

Our executive directors promote our core values throughout the Group. The board as 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.

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 2020
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. A client feedback exercise was undertaken as part of the Harry Peers due diligence process.
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 of 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 and certain board members attended our inaugural safety awards event in York. For more information please read our **building a sustainable business** report on page 66
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.	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 108) 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 72
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

Listening to our employees' voice

We recognise the importance of listening to employees to understand their concerns and to act on them. During the year, the board visited various sites across the Group and met with groups of employees, discussing with them their experiences and views. In determining the most appropriate engagement method to adopt going forward, the board has agreed to undertake 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. Unfortunately, the COVID-19 pandemic has resulted in this work being delayed and it will be started as soon as practicably possible in the 2021 financial year.

Due to the COVID-19 pandemic we chose to accelerate the launch of a new company intranet. 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 70 and 71 for further detail on how we engage with our employees.

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 Kevin Whiteman, 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 focussed 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.

Corporate governance report

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 the Code relating to stakeholder engagement, culture and to executive remuneration that took effect for the Group on 1 April 2019.

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 143) and a statement by the auditor concerning their responsibilities (pages 146 to 153). The directors also report that the business is a going concern (page 118) 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 36 to 44). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 63).

Modern slavery

The board annually reviews and approves the Group's modern slavery statement. The 2020 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.

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 120 to 142. 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 COMMITTEE HAS CONTINUED TO PROVIDE SUPPORT BY MONITORING THE INTEGRITY OF FINANCIAL REPORTING, THE EFFECTIVENESS OF RISK MANAGEMENT AND INTERNAL CONTROLS PROCESSES, AND IN GOVERNANCE AND COMPLIANCE MATTERS.

Tony Osbaldiston
Chairman of the audit committee

Number of meetings

3

Members

Tony Osbaldiston (chairman)
Kevin Whiteman
Alun Griffiths
Louise Hardy*

* Louise Hardy was appointed on 3 September 2019.

2020 key achievements

- Oversaw the continued development of the Group's systems of risk management and internal control.
- Considered and reviewed the internal control environment at JSSL and the Group legal director's report on his review of JSSL risk management procedures.
- Reviewed and recommended to the main board the report and accounts for the year ended 31 March 2019 and the 2020 interim accounts.

Overview

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.

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. John Dodds, 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, focussing 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.

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 2020 financial year:

- Reviewed the interim results for the period ended 30 September 2019 and the year-end results for the year ended 31 March 2020.
- 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 2020. 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 2020.
- Reviewed the Group's risk register.
- Considered and reviewed the internal control environment at JSSL and the Group legal director's report on his review of JSSL risk management procedures.
- Considered and reviewed JSSL's internal audit reports.
- Considered and reviewed management's papers on the accounting impact of IFRS 16 and the acquisition of Harry Peers.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 31 March 2020.
- 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 2021.
- 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. 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 focussed 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.

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 74 to 77. 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 63 of the strategic report.

Audit committee 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. As a result of the COVID-19 pandemic and the potential future impact on Group profits and cash flows, 'going concern' has been elevated to a significant accounting risk this year. Finally, following the acquisition of Harry Peers in October 2019, the other significant accounting risk considered this year was the 'identification and valuation of intangible assets arising on acquisition of Harry Peers'.

A. 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.

B. Going concern

The committee reviewed and challenged management's assessment of forecast cash flows including sensitivity to trading and expenditure plans, and for the potential impact of uncertainties associated with the COVID-19 pandemic. The committee also considered the Group's financing facilities and future funding plans. Based on this, the committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement.

C. Identification and valuation of intangible assets arising on the acquisition of Harry Peers

The committee reviewed the report of the Group finance director that set out the acquisition accounting positions for Harry Peers and the valuation of the relevant acquired intangible assets (customer relationships, order books and brand), 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 2020 results. These include the profit recognition of the Indian joint venture, 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 due to lack of available internal resource. 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 focussed 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 five 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 10 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 2020 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 2020 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 2020 represent 15 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

17 June 2020

Nominations committee report

John Dodds
Chairman of the nominations committee

INCREASING THE DIVERSITY OF THE BOARD AND EFFECTIVE SUCCESSION PLANNING REMAIN KEY AREAS OF FOCUS FOR THE NOMINATIONS COMMITTEE.

John Dodds
Chairman of the nominations committee*

Number of meetings

5

Members

John Dodds (chairman)*
Tony Osbaldiston
Kevin Whiteman
Alun Griffiths
Louise Hardy**

2020 key achievements

- Recommending the appointment of Louise Hardy as a new non-executive director.
- Reviewing and refreshing the Group's succession planning.
- Undertaking and considering the results of the board evaluation.
- Establishing the process for and recommending the appointment of a new Chairman.

2021 areas of focus

- Establishing a process for the search for a new non-executive director, taking into account succession planning and diversity.
- Appoint a new senior independent director to replace Kevin Whiteman.
- Reviewing and re-establishing the Group's succession plan.
- Undertaking an effective board evaluation.

Overview

The committee ensures the continued effectiveness of the board through appropriate succession planning and supports the development of a diverse pipeline.

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 suitable candidates are identified, having due regard for the benefits of diversity on the board, including gender, and are recommended for appointment to the board.

The committee's terms of reference are available on the Group's website (www.severfield.com) and on request from the Company secretary.

Board effectiveness

During the year, Louise Hardy 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 executive directors Louise Hardy was then recommended and duly appointed by the board after the AGM.

The committee, chaired by Alun Griffiths for these purposes, undertook a process for identifying my replacement as chairman. An internal candidate, Kevin Whiteman, 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 Kevin and other members of the board, to satisfy themselves that Kevin was the right choice. Kevin is an outstanding candidate with a strong balance of senior executive, non-executive, chairmanship and strategic experience necessary to enable him to lead the board during the next phase of the Group's development.

The board now consists of nine directors, five of whom have been directors of the Company for six years or less. I am not seeking reappointment at the forthcoming AGM so the board will consist of eight directors in the short term. Chairmanship of the committee will now revert to the chairman of the board. A search will be undertaken in due course to appoint a new non-executive director, taking into account the board's existing skills set and seeking to improve, where appropriate, its diversity. An appointment will also be made to fill the position of senior independent director, which will become vacant once Kevin Whiteman takes over as chairman following the AGM in September. Korn Ferry has supported the board in previous selection processes for new board members but has no other connection with the Company.

* Alun Griffiths was chairman of two meetings which were held to establish a process for the appointment of a new Chairman and which John Dodds as the incumbent chairman did not attend due to a conflict of interest.

** Louise Hardy was appointed on 3 September 2019.

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, 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 2020, the board had one female director (11 per cent). Notwithstanding this, female representation on our executive committee is two (15 per cent) and of those reporting directly to members of the executive committee, female representation is much higher at 48 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 undertook a refreshment of its approach to succession planning during the year.

Evaluation

The committee (led by Kevin Whiteman) performed 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.

John Dodds
Chairman of the nominations committee

17 June 2020

Directors' report

Mark Sanderson
Company secretary

Introduction

The directors present their report together with the audited consolidated financial statements for the year ended 31 March 2020.

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 22 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 98 to 106 is incorporated in this report by reference.

Since the balance sheet date, the following significant events have occurred:

1. The Group has been impacted by the COVID-19 pandemic (for further details please refer to the operating review on page 50).
2. The board has appointed Kevin Whiteman as chairman to replace John Dodds, who is retiring at the AGM on 3 September 2020.

Directors

The present membership of the board is set out on pages 90 and 91.

The other significant commitments of the chairman consist of acting as non-executive director of Newbury Racecourse plc.

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 131.

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 2020, 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	37,786,654	12.35
2. JO Hambro Capital Management	26,413,678	8.63
3. Threadneedle Asset Management	22,643,204	7.40
4. Unicorn Asset Management	21,058,894	6.88
5. Chelverton Asset Management	18,900,000	6.18
6. Invesco (including Perpetual & Trimark)	17,136,071	5.60
7. Legal & General Investment Management	16,972,580	5.55

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 2020, there were 305,928,087 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 2020 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 2019, 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 2020 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 2019, 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 2020 AGM (or, if earlier, until the close of business on 30 September 2020).

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 2019, 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 2020 AGM (or, if earlier, until the close of business on 30 September 2020). During the period, the directors did not use these powers.

Dividends

The directors declared an interim dividend for the six months ended 30 September 2019 of 1.1p per ordinary share (2019:1.0p).

Directors' report

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.

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 62.

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 70 to 71
- Respect for human rights – page 72
- Social matters – page 72
- Equal opportunities (including for the disabled) – page 72
- Environmental matters – pages 64 to 66
- Greenhouse gas emissions – page 69
- Long-term incentive plans – page 134 of the directors' remuneration report
- Statement of directors' interests – page 138 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 2020. 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 to be held remotely on Thursday 3 September 2020, 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 116 to 118 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary

17 June 2020

Directors' remuneration report

Alun Griffiths
Chairman of the remuneration committee

Number of meetings

6

Members and committee attendance

Alun Griffiths (chairman)	6/6
Kevin Whiteman	6/6
Tony Osbaldiston	6/6
John Dodds	6/6
Louise Hardy*	3/3

2020 key acheivements

- Reviewed and updated the remuneration policy in the context of changes to the Code and guidance issued by the main institutional investor bodies for approval at this year's AGM and application of the policy.
- 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 2020.
- Reviewed and adapted remuneration policy 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 until at the earliest October 2020 after the half year;
  - deferred consideration of pay review for the majority of the executive directors until at the earliest October 2020 after the half year; and
  - deferred consideration of the 2021 bonus scheme and the 2021 PSP scheme.

Overview

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 2020.

The report is split into the following two sections:

- Part 1, the remuneration policy report, which is being submitted to a shareholder vote at the forthcoming AGM on 3 September 2020 as part of our regular three-year cycle, and which sets out the remuneration policy for the executive and non-executive directors; and
- Part 2, the annual report on remuneration, which discloses how the remuneration policy was implemented for the year ended 31 March 2020 and how it will be implemented for the year ending 31 March 2021. The annual report on remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 3 September 2020.

Our policy was last approved at our 2017 AGM, with 99.66 per cent of votes cast in favour.

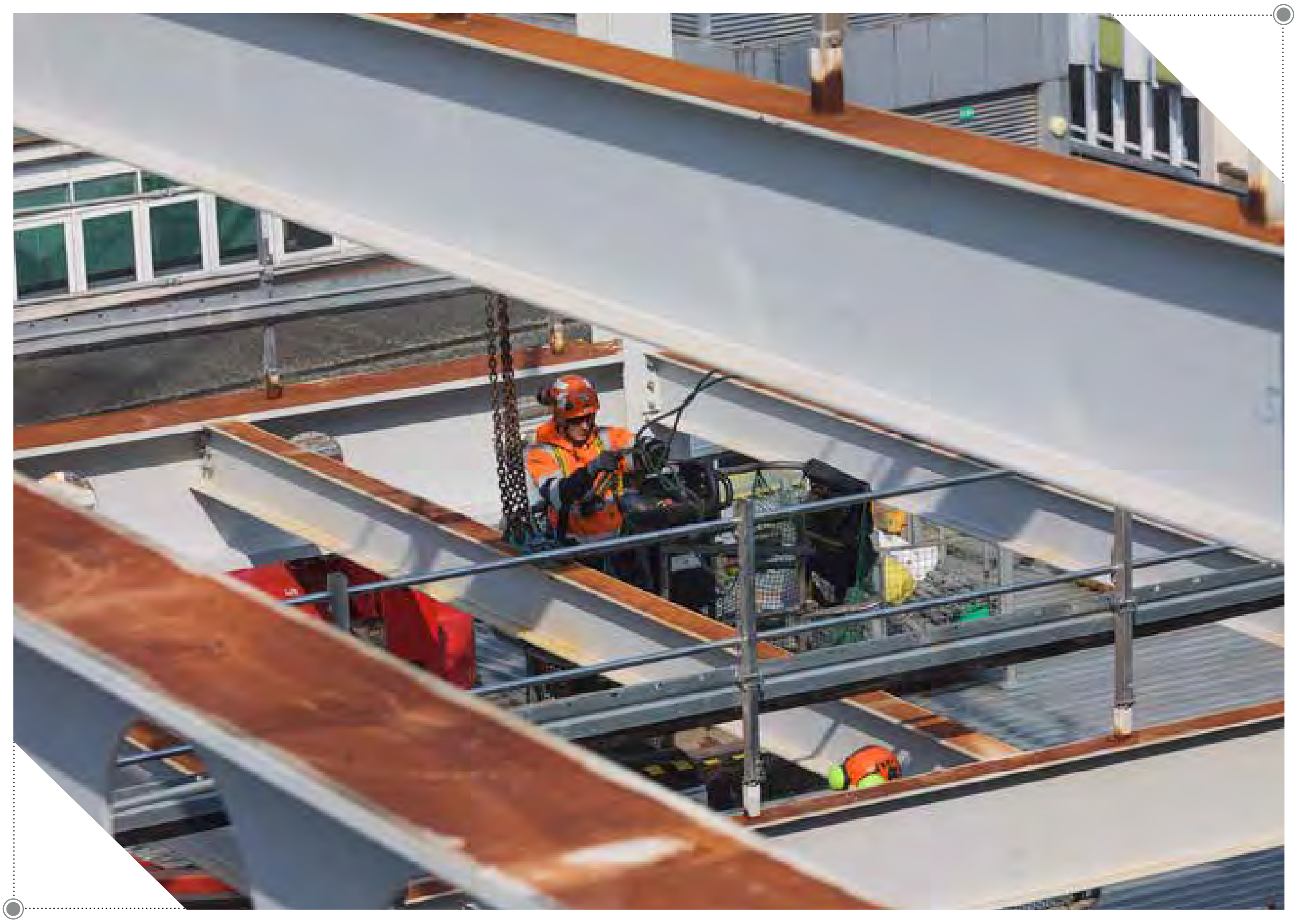
Overall, the committee considers that the policy continues to support our business strategy and provides an appropriate link between performance and reward. In determining the policy we have taken careful note of the guidance issued by shareholders and by the investment community as a whole. Where appropriate, remuneration policy for directors is in line with remuneration of the Group as a whole.

The management team performed well during challenging UK market conditions, influenced in part by Brexit uncertainty, and met demanding Group strategy targets. The impact of the COVID-19 pandemic was not felt by the Group until the last two weeks of the 2020 financial year and whilst the Group's bonus targets were partially met, as were the India bonus targets, consideration of bonus entitlement has been deferred until the half year.

Summary of proposed amendments to our directors' remuneration policy for 2021

Last year we undertook a thorough review of our policy, taking into account the 2018 update to the Code, the FRC's revised Guidance on Board Effectiveness and the Companies (Miscellaneous Reporting) Regulations 2018. We implemented a number of improvements last year and this year some further modifications to the policy are being proposed to ensure that the policy remains fit for purpose to deliver appropriate rewards and drive performance for the next three-year cycle and to take account of emerging best practice. Our conclusion is that the current remuneration structure continues to drive the right behaviours and no fundamental changes to the overarching policy are being proposed.

* Louise Hardy was appointed on 3 September 2019.



We have taken note of the investor guidance for alignment of pension contribution rates for executive directors with those available to the wider workforce and are proposing a number of changes in order to achieve compliance:

- Immediately on approval of the policy, pension allowances for new executive director appointments will be reduced to the level of the majority of the UK monthly paid workforce in the United Kingdom; currently 7 per cent of base salary.
- Pension allowances for existing executive directors will be reduced to 15 per cent of salary on a phased basis over the next three years as the first stage towards full alignment, with full alignment by the end of the next policy period. There are currently a number of legacy pension provisions in place across the Group. We are reviewing the different provisions and will be engaging with our employees and trade unions to implement the required changes. Further details will be included in next year's directors' remuneration report.
- A formal post-cessation shareholding policy has been introduced requiring executive directors to retain a shareholding equal to the full in-employment shareholding for a period of two years post-employment. This requirement will apply to shares acquired (net-of-tax) under awards granted after this policy has come into effect. Shares purchased from the executives' own funds would not be included to avoid discouraging the purchase of shares in the future. We have clarified our policy such that directors are required to retain all deferred bonus and vested PSP shares until the shareholding requirement has been met.

Performance and reward 2020

The Group has consolidated its position this year, delivered top and bottom-line growth and made real progress in meeting its strategic objectives, including exceeding the 2020 strategic profit target of £26m. This was achieved through continuing focus on operational improvements, supported by continued investment in people, processes and technology. In addition, the acquisition of Harry Peers has given us additional market share in a strategically significant market.

Annual bonus

The Group financial targets and the profit targets for our Indian joint venture were partially met, and safety targets were also partially met. As a result, an annual bonus pay-out of 61 per cent of the maximum opportunity (or in the case of Derek Randall 70 per cent) would have been earned. Any decision on the affordability of that bonus has been deferred until October 2020 at the earliest due to the impact of the COVID-19 pandemic.

Directors' remuneration report

PSP awards
The remuneration policy allows a maximum grant of 150 per cent of salary, and awards of 100 per cent of salary were made in June 2019 for the chief executive officer and the chief operating officer and 75 per cent for other executive directors. All awards are below the maximum permitted by the policy.

PSP vesting
The committee assessed the performance for the 2017 PSP awards vesting in June 2020 and the levels of profit achieved last year resulted in targets for the 2017 PSP award (EPS targets which equated to PBT of between £25m and £29.5m) being met, resulting in the expected vesting of these awards at 85% of their maximum level.

Having reviewed the performance of the PSP, the committee was satisfied that the short and long-term variable pay outturns accurately reflect the wider performance of the Group and has not exercised discretion to override or modify the calculation of the pay-out on the vesting outcomes.

Implementation of policy for 2021

In the light of the uncertainty as to the overall impact of the COVID-19 pandemic on performance and on demand for 2021 we have deferred the implementation of the 2021 bonus and PSP schemes and the salary review as detailed below.

Base salaries
Salaries for the directors would ordinarily have been reviewed and be effective from 1 July 2020 with increases, as a percentage of salary, being limited to those of the wider workforce at 2%. However, due to the COVID-19 pandemic, salary reviews for all executive directors have been deferred until October 2020 at the earliest with the exception of Adam Semple whose salary will be increased to £250,000 this year (an increase of 6%). In the case of Adam Semple, on appointment to his current role on 1 February 2018, on a salary of £220,000, it was agreed that his salary would be reviewed again in July 2019 after which it was agreed that his salary would be increased to £250,000 in two stages, in July 2019 and again in July 2020, based on the achievement of an appropriate performance management programme over the period. As a result, Adam Semple's salary was increased to £235,000 in July 2019 and it is proposed to increase it to £250,000 in July 2020.

There will be no change to the fees paid to non-executive directors.

Annual bonus
For the 2021 financial year, consideration of annual bonus has been deferred until October 2020 at the earliest. However, any bonus scheme adopted will continue to maintain the same balance of financial and non-financial measures, and the remuneration committee will assess the appropriateness of each measure, to ensure that these remain appropriate for the year ahead. To the extent the bonus plan is operated, threshold, target and stretch targets will be disclosed in the relevant year's remuneration report.

PSP
For the 2021 financial year, consideration of PSP awards has been deferred until October 2020 at the earliest. However, any awards made will contain targets which are intended to incentivise management to maintain forward momentum and will represent 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. If we propose to use significantly different metrics to EPS, we would first consult with shareholders.

For any awards made for 2021, the grant levels will not exceed 100%.

Any vested PSP awards will be subject to a two-year post vesting holding period.

Conclusion

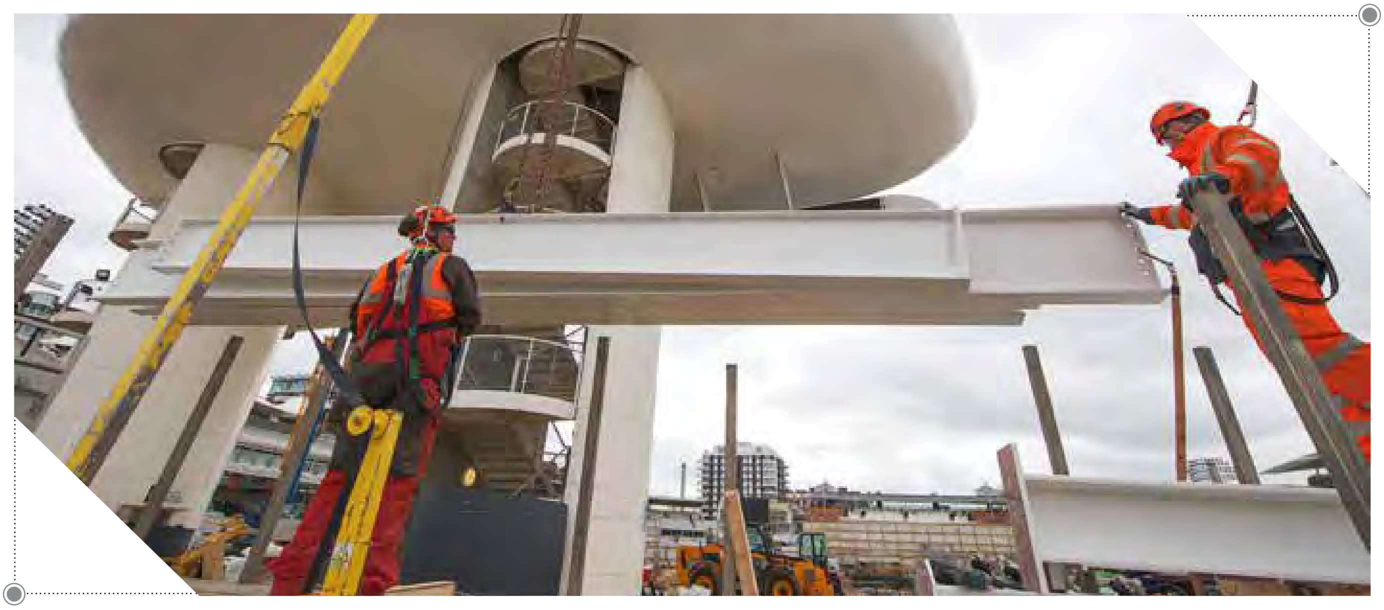
The committee continues to seek to strengthen shareholder alignment and ensure that pay remains firmly linked to performance whilst ensuring that the bonus and performance share plans provide a strong incentive for management to deliver superior performance over the short and longer term. At the same time, we are mindful that our remuneration policy should be reviewed in the context of the impact of the COVID-19 pandemic on the Group's operations. We consider our remuneration policy achieves these objectives and takes account of the changes to the Code in 2018 and recent institutional shareholder guidelines.

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

17 June 2020



Remuneration philosophy

The key principles of our approach to executive remuneration are:

To provide strong alignment with the interests of our shareholders and other stakeholders in incentivising management to achieve sustainable long-term value creation, whilst ensuring that high safety standards are achieved.

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.

The report is in two parts:

- A summary of the directors' remuneration policy (pages 123 to 133). This section contains details of the remuneration policy and is subject to approval at the 2020 AGM.
- The directors' annual remuneration report (pages 134 to 142). This section sets out the details of remuneration earned by directors for performance in the year ended 31 March 2020 and how the policy was implemented. It sets out how we intend to apply the policy for the year ending 31 March 2021. The directors' remuneration report is subject to an advisory vote at this year's AGM.

Part 1 – Remuneration Policy

The table below sets out each element of the Remuneration Policy for the executive directors, explaining how each element operates and the links to the corporate strategy. If approved, the policy will be effective from the date of the Company's 2020 AGM. The proposed policy has been determined after reviewing the impact of the previous policy, considering the Company's strategy, remuneration philosophy and business model and taking into account the new Corporate Governance Code and updated shareholder and proxy guidelines and wider best practice.

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 while ensuring that additional reward is only paid for high performance over a sustained period.

The remuneration report details how the existing approved remuneration policy has been implemented over the previous year and how the proposed policy will be implemented in the following year, subject to approval by our shareholders.

The Policy differs from the previous Policy in the following areas:

- pension allowances for new executive director appointments, and for executive directors changing role, will be set at the level of the majority of the UK monthly paid workforce in the United Kingdom; currently 7 per cent of base salary.
- pension allowances for existing executive directors will be reduced to 15 per cent of salary on a phased basis over the life of the policy;
- a formal post-cessation shareholding policy has been introduced requiring executive directors to retain a shareholding equal to the full in-employment shareholding for a period of two years post-employment;

Directors' remuneration report

- rather than specifying a fixed time period to reach the required shareholding level, we now require directors to retain all deferred bonus and vested PSP shares until the shareholding requirement has been met.

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 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 to culture: 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.

The remuneration committee has determined that the remuneration of executive directors will provide an appropriate balance between fixed and performance-related pay elements. The remuneration committee will continue to review the remuneration policy to ensure it takes due account of remuneration best practice and that it remains aligned with shareholders' interests.

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.

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.

Directors' remuneration report

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 reduced to 15 per cent by July 2023 as follows:	No recovery provisions apply to pension benefits.

	Current	From 1/4/21	From 1/4/22	From 1/4/23
CEO	20%	19%	17%	15%
Others	18%	17%	16%	15%

For international assignments, the Group may be required to make additional payments to comply with local statutory requirements.

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 135.

Directors' remuneration report

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.

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.

Directors' remuneration report

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.

Illustration of application of the policy
The remuneration package comprises core fixed pay (base salary, pension and benefits) and performance based variable pay (annual bonus and the PSP). The chart below illustrates the composition of the executive directors' remuneration packages under the proposed policy for threshold, on-target and stretch performance.

A significant proportion of remuneration is linked to performance, particularly at maximum performance levels. The charts below show how much each executive director could earn under Severfield's remuneration policy (as detailed above) under different performance scenarios.

The following assumptions have been made:

- Minimum (performance below threshold) — Fixed pay only with no vesting under the annual bonus or PSP.
- Target (performance in line with expectations) — Fixed pay plus a bonus at the mid-point of the range (i.e. 50 per cent of the maximum opportunity) and a PSP award of 100 per cent of salary for the chief executive officer and chief operating officer and 75 per cent of salary for other executives and an assumption of vesting at 50 per cent of the maximum.
- Maximum (performance meets or exceeds maximum) – Fixed pay plus maximum bonus and maximum PSP award vesting.

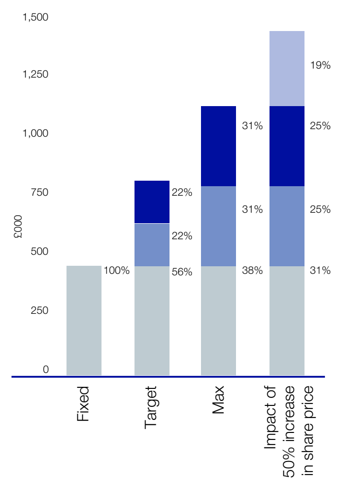
- Maximum plus 50 per cent share price appreciation: illustrating the effect of a 50 per cent growth in the Company's share price on the value of the PSP awards.

Fixed pay comprises:

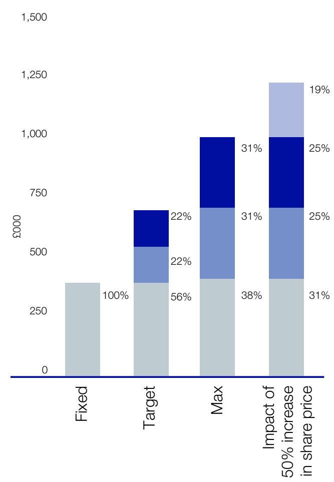
- Salaries – salary effective as at 1 July 2020;
- Benefits – amounts expected to be received by each executive director in the 2021 financial year;
- Pension – amount that will be received by each executive director in the 2021 financial year based on the policy set out in the table above.

The scenarios for minimum, target and maximum performance do not include any share price growth.

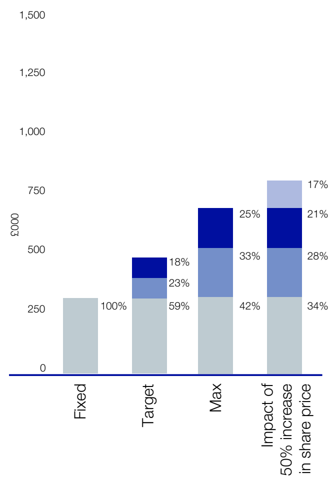
Chief executive officer



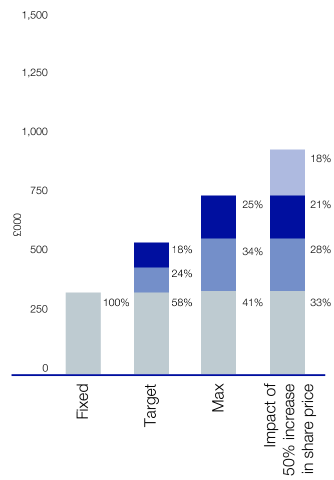
Chief operating officer



Group finance director



Executive director



● Fixed ● Bonus ● LTIP ● Share price appreciation

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.

Our recruitment remuneration policy

Base salary levels will be set in accordance with our approved remuneration policy prevailing at the time of appointment, taking into account the experience and calibre of the individual and the relevant market rates at the time. Where it is appropriate to offer a lower salary initially, progressive increases (possibly above those of the wider workforce as a percentage of salary) to achieve the desired salary positioning may be given over the following few years subject to individual performance and continued development in the role. Salary will be considered in the context of the total remuneration package.

Benefits will be provided in line with those offered to other employees, with relocation expenses/arrangements provided for if necessary.

Should it be appropriate to recruit a director from overseas, flexibility is retained to provide benefits that take account of those typically provided in their country of residence (e.g. it may be appropriate to provide benefits that are tailored to the unique circumstances of such an appointment).

Pension contributions or a cash supplement up to the maximum level indicated in the policy table will be provided, although the committee retains the discretion to structure any arrangements as necessary to comply with the relevant legislation and market practice if an overseas director is appointed.

The aggregate ongoing (i.e. after the year of appointment) incentive opportunity offered to new recruits will be no higher than that offered under the annual bonus plan and the PSP policy to the existing executive directors. In the year of appointment, the annual bonus opportunity will be no higher than that offered to existing executive directors, prorated for the period of service (i.e. 100 per cent of salary on an annualised basis). The committee may award up to 150 per cent of salary under the PSP, although in exceptional circumstances, in order to facilitate the buy-out of existing awards the committee may go above this limit.

Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that they joined.

The above policy applies to both an internal promotion to the board and an external hire.

Directors' remuneration report

The maximum level of variable pay which may be awarded to new executive directors, excluding the value of any buy-out arrangements, will be in line with the policy set above. In addition, the remuneration committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer when it considers these to be in the best interests of the Company and its shareholders. It will, where possible, ensure that these awards are consistent with awards forfeited in terms of the form of award, vesting periods and expected value. Such elements may be made under section 9.4.2 of the Listing Rules where necessary. Shareholders will be informed of any such arrangements at the time of appointment.

The remuneration committee may apply different performance measures, performance periods and/or vesting periods for initial awards made following appointment under the annual bonus and/or long-term incentive arrangements, subject to the rules of the plan, if it determines that the circumstances of the recruitment merit such alteration. A PSP award can be made shortly following an appointment (assuming the Company is not in a closed period).

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the board appointment).

On the appointment of a new chairman or non-executive director, the fees will be set taking into account the experience and calibre of the individual and the expected time commitments of the role. Where specific cash or share arrangements are delivered to non-executive directors, these will not include share options or other performance-related elements.

External appointments

The Board allows executive directors to accept appropriate outside commercial non-executive director appointments provided the aggregate commitment is compatible with their duties as executive directors. The executive directors concerned may retain fees paid for these services, which will be subject to approval by the board. No non-executive directorships in a listed company were held by the executive directors during the year.

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 2020 as well as how the policy will be implemented for 2021. 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.

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.

Implementation of policy for 2020

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	6/6
Louise Hardy[1]	3/3
Kevin Whiteman	6/6
Tony Osbaldiston	6/6

[1] Louise Hardy attended all meetings whilst she was a director.

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.

Advisers to the committee

Wholly independent advice on executive remuneration is received from the Executive Compensation practice of Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Fees charged by Aon for advice provided to the committee for the year ended 31 March 2020 amounted to £38,000 (excluding VAT) (2019: £24,000).

Directors' remuneration report

Directors' earnings for the 2020 financial year (audited)

Remuneration received by the directors

£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
			Year ended 31 March 2020				
Executives							
Alan Dunsmore	356	219	–	19	71	202	**867**
Ian Cochrane	318	195	–	16	50	179	**758**
Derek Randall	261	185	–	–	50	148	**644**
Adam Semple	231	143	–	16	42	21	**453**
Non-executives							
John Dodds	–	–	125	–	–	–	**125**
Louise Hardy (appointed 3 September 2019)	–	–	26	–	–	–	**26**
Tony Osbaldiston	–	–	45	–	–	–	**45**
Kevin Whiteman	–	–	45	–	–	–	**45**
Alun Griffiths	–	–	45	–	–	–	**45**
	1,166	**742**	**286**	**51**	**213**	**550**	**3,008**

Taxable benefits include the provision of company cars, fuel for company cars, car allowance and private medical insurance. LTIPs reflect those PSP awards expected to vest based on performance to 31 March 2020.

* Calculated at 85 per cent of maximum award × the average share price over the period 1 March 2020 to 30 April 2020 of 68.41p and adjusted for extra dividend equivalent shares. This is different to the approach taken in recent years due to the impact of the COVID-19 pandemic on the share price since the year-end. The average share price for 1 January to 31 March 2020 inclusive was 80.72p.

Directors' earnings for the 2019 financial year (audited)

Remuneration received by the directors

£000	Salary	Bonus	Fees	Benefits	Pension	LTIPs*	Total
			Year ended 31 March 2019				
Executives							
Alan Dunsmore	350	70	–	19	70	381	**890**
Ian Cochrane	310	62	–	16	50	338	**776**
Derek Randall	255	154	–	-	50	278	**737**
Adam Semple	220	44	–	16	40	37	**357**
Non-executives							
John Dodds	–	–	125	–	–	–	**125**
Tony Osbaldiston	–	–	45	–	–	–	**45**
Kevin Whiteman	–	–	45	–	–	–	**45**
Alun Griffiths	–	–	45	–	–	–	**45**
Chris Holt (until 4 September 2018)[1]	–	–	17	–	–	–	**17**
	1,135	**330**	**277**	**51**	**210**	**1,034**	**3,037**

Taxable benefits include the provision of company cars, fuel for company cars, car allowance and private medical insurance. LTIPs reflect those PSP awards expected to vest based on performance to 31 March 2019.

* LTIPs reflect those PSP awards vesting based on performance to 31 March 2019 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 68.80p.

[1] Chris Holt resigned with effect from 4 September 2018.

Remuneration received by the directors

The directors received a 2.4 per cent salary increase, which was broadly in line with that received by the UK workforce, with the exception of Adam Semple who received an increase of 6.8 per cent for the reasons explained earlier.

Past directors/loss of office payments (audited)

There have been no payments made to past directors during the year.

How pay linked to performance in 2020

Bonus

Performance was such that the executive directors would have received the bonuses set out in the table below, of which 50 per cent would have been paid in shares deferred for three years. However, consideration of entitlement to receive these bonuses has been deferred until October 2020 at the earliest.

Under the rules of the Group's deferred share bonus plan, the participants would receive nil cost options exercisable after three years over a seven-year period which would be forfeitable only in certain scenarios in accordance with the remuneration policy as disclosed on page 127.

Alan Dunsmore	£218,798
Ian Cochrane	£194,980
Adam Semple	£143,464
Derek Randall	£185,198

As reported last year, the bonus plan applicable to the executive directors for 2020 had two separate performance conditions:

- Eighty per cent was payable on achieving budgeted Group PBT (with the exception of Derek Randall who, whilst he is managing director of JSSL, has the profit performance-based component of his bonus split 50/50 between Group PBT and PBT for India). The financial element begins to pay out at 95 per cent of budgeted Group PBT, rising to 50 per cent of this element being payable for achieving budget and full pay-out for achieving 120 per cent of budget.
- Twenty per cent was payable based on achieving a safety target based on Group IFR with a Group AFR underpin (with the exception of Derek Randall who, whilst he is managing director of JSSL, has the safety component of his bonus based on AFR (India)).

Our policy is to disclose annual PBT, AFR and IFR targets retrospectively following the end of the performance period, unless, in the view of the remuneration committee, this would compromise the commercial position of the Group.

The targets for 2020 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	Bonus performance as % of salary
Group PBT*	80%	£25.9m	£27.3m	£32.7m	£27.4m	51%	41%
Group AFR	20%	0.15	0.15	0.15	0.15	100%	20%
Group IFR**		above 2.10	below 2.00	below 1.90	1.81	100%	
							61%

* For Group PBT, 'threshold' represents 95 per cent of budget, 'on-target' represents 100 per cent of budget and 'maximum' represents 120 per cent of budget.

** For Group IFR, 'threshold' represents nil per cent pay-out, 'on-target' represents 50 per cent pay-out and 'maximum' represents 100 per cent pay-out.

Derek Randall (JSSL managing director)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus	Bonus performance as % of salary
Group PBT*	40%	£25.9m	£27.3m	£32.7m	£27.4m	51%	20%
JSSL (India) PBT	40%	30.0 Cr	40.0 Cr	60.0 Cr	50.0 Cr	75%	30%
JSSL (India) AFR**	20%	above 0.121	below 0.12	below 0.10	-	100%	20%
							70%

* For Group PBT, 'threshold' represents 95 per cent of budget, 'on-target' represents 100 per cent of budget and 'maximum' represents 120 per cent of budget.

** For JSSL AFR, 'threshold' represents nil per cent pay-out, 'on-target' represents 50 per cent pay-out and 'maximum' represents 100 per cent pay-out.

Directors' remuneration report

PSP awards vesting in 2020

The 2017 PSP awards are due to vest in June 2020, subject to the achievement of an EPS performance condition measured over the three financial years ended 31 March 2020. The minimum EPS figure required for vesting of 25 per cent of the award was c.6.76p which equates to a PBT of £25m. The EPS figure required for vesting at maximum of 100 per cent of the award was c.7.98p which equates to a PBT of £29.5m. The actual PBT achieved was £28.6m which equates to EPS of 7.75p and therefore it is estimated that 85 per cent of these awards will vest subject to continued service.

A summary is set out below:

PSP awards granted to directors in 2020 (audited)

Share awards were made in the year under the PSP scheme for the three year period expiring on 31 March 2022. Details of the awards made to the executive directors are summarised below.

Measure	Type	Number of shares	% of salary	Face value (£)[1]	Performance condition[2]	Performance period	% vesting at threshold
Alan Dunsmore	Nil-cost option	490,196	100%	350,000	EPS	3 financial years ending 31 March 2022	25%
Ian Cochrane	Nil-cost option	436,835	100%	311,900			
Derek Randall	Nil-cost option	269,433	75%	192,375			
Adam Semple	Nil-cost option	231,092	75%	165,000			

[1] Face value calculated based on the pre-grant date share price of 71.40p on 20 June 2019.

[2] Performance conditions are based on EPS targets of 8.41p (minimum performance – 25% vests) to 10.39p (maximum performance – 100 per cent vests) with linear interpolation in between. This represents a PBT range of £31.0m–£38.3m.

The PSP and the annual bonus plan contain malus and clawback provisions (together 'clawback') which can be applied before an award vests or for a period of three years post vesting or within three years of the bonus being paid. Clawback can be applied when it becomes apparent that a PSP award or bonus was larger than ought to have been the case due to the Company having materially misstated its financial results or having made an error in assessing any performance condition or bonus. Clawback can also be applied in the case of subsequently discovered misconduct of a relevant individual or where there has been a substantial failure of risk control. The triggers for which clawback can apply have been extended to cases of corporate failure, severe downturn of financial or operational performance and serious reputational damage, in addition to misconduct. The amount of the relevant clawback would be the net of tax amount (or the full amount to the extent that the individual can recover any tax paid) that had effectively been overpaid in the case of misstatement or error or would be at the committee's discretion in the case of misconduct. Clawback can be imposed by a reduction in the amount of any unvested PSP award, a reduction in the amount of any future bonus or by a requirement to pay back the amount in question (with a right to deduct from salary).

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 (June)	Performance condition	Awards held at 1 April 2019	Awards granted in year	Awards lapsed in year	Awards vested in year[4]	Awards held at 31 March 2020
Alan Dunsmore	2016	2019	EPS	492,714	–	–	(554,348)	–
	2017	2020	EPS	304,549	–	–	–	304,549
	2018	2021	EPS	414,692	–	–	–	414,692
	2019	2022	EPS	–	490,196	–	–	490,196
Total				**1,211,955**	**490,196**	**–**	**(554,348)**	**1,209,437**
Ian Cochrane	2016	2019	EPS	436,637	–	–	(491,257)	–
	2017	2020	EPS	269,888	–	–	–	269,888
	2018	2021	EPS	360,556	–	–	–	360,556
	2019	2022	EPS	–	436,835	–	–	436,835
Total				**1,067,081**	**436,835**	**–**	**(491,257)**	**1,067,279**
Derek Randall	2016	2019	EPS	359,071	–	–	(403,988)	–
	2017	2020	EPS	221,948	–	–	–	221,948
	2018	2021	EPS	222,372	–	–	–	222,372
	2019	2022	EPS	–	269,433	–	–	269,433
Total				**803,391**	**269,433**	**–**	**(403,988)**	**713,753**
Adam Semple	2016	2019	EPS	48,241	–	–	(54,276)	–
	2017	2020	EPS	31,655	–	–	–	31,655
	2018	2021	EPS	195,498	–	–	–	195,498
	2019	2022	EPS	–	231,092	–	–	231,092
Total				**275,394**	**231,092**	**–**	**(54,276)**	**458,245**
				3,357,821	**1,427,556**	**–**	**(1,503,869)**	**3,448,714**

Performance conditions are based on a range of EPS targets as follows:

	Threshold (25% vests)	Maximum (100% vests)
2017 award[1]	6.76p	7.98p
2018 award[2]	7.88p	9.75p
2019 award[3]	8.41p	10.39p

[1] Represents a PBT range of £25.0m–£29.5m.

[2] Represents a PBT range of £29.5m–£36.5m.

[3] Represents a PBT range of £31.0m–£38.3m.

[4] Total of shares vested was higher than total of shares granted since, in accordance with the rules of the plan, additional shares were awarded at vesting representing dividend entitlement accrued during the three-year performance period.

Statement of directors' shareholding

As at 31 March 2020, 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 2020[1]
Alan Dunsmore	200%	157%
Ian Cochrane	200%	337%
Adam Semple	150%	13%
Derek Randall	150%	183%

[1] Value of actual share ownership was calculated with reference to the closing mid-market share price at 31 March 2020 of 63.00p. The calculation exludes bonus shares earned and awarded in 2017, 2018 and 2019 for which the relevant three-year deferral period has not yet expired. If these are taken into account, then Alan Dunsmore's shareholding is 201 per cent and meets the requirement.

Directors' remuneration report

Directors' current shareholdings (audited):

The following table provides details on the directors' beneficial interests in the Company's share capital as at 31 March 2020.

	Owned shares[1]	Share incentive plan (SIP)[2]	Sharesave scheme	DSBP[3]	PSP[4]	**Total[5]**
Executives						
Alan Dunsmore	892,827	20,479	26,470	249,105	1,209,437	**2,398,318**
Ian Cochrane	1,707,353	20,479	26,470	249,369	1,067,279	**3,070,950**
Adam Semple	49,202	–	11,250	44,982	458,245	**563,679**
Derek Randall	764,435	4,667	–	289,119	713,753	**1,771,974**
Non-executives						
John Dodds	419,833	–	–	–	–	**419,833**
Tony Osbaldiston	–	–	–	–	–	**–**
Kevin Whiteman	–	–	–	–	–	**–**
Alun Griffiths	30,000	–	–	–	–	**30,000**
Louise Hardy	–	–	–	–	–	**–**

[1] Includes shares owned by connected persons.

[2] SIP shares are unvested and held in trust.

[3] The principal terms of the deferred share bonus plan are described on page 127.

[4] PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2017 awards which had not actually vested as at 31 March 2020.

[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 2020 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 2020**	Total SIP shares at 25 May 2020
Ian Cochrane	**363**	20,842
Alan Dunsmore	**363**	20,842

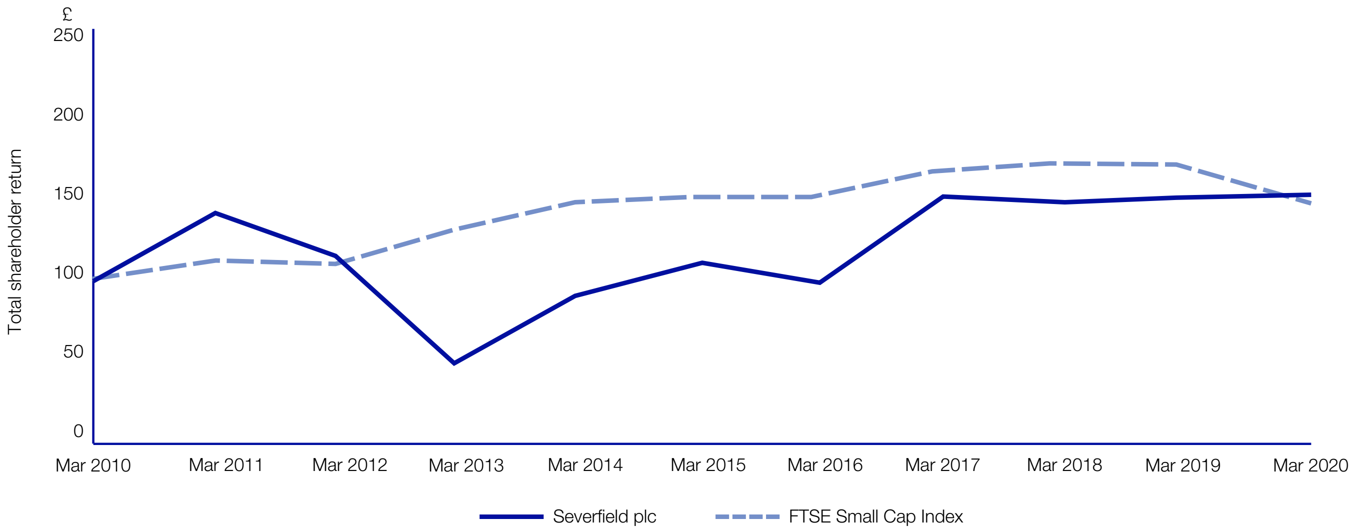
Position against dilution limits

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 2020 was under the maximum 10 per cent limit at 8.0 per cent.

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 31 March 2010 over the ten-year period ended 31 March 2020.

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 March 2010.



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 (or in the case of 2020 are expected to vest) based on performance in those years (at the share price at which they vested or, in the case of the 2020 figures, at the average share price over the period 1 March 2020 to 1 April 2020).

	2010 Haughey	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
Total remuneration (£000)	640	701	450	62	289	233	681	946	1,228	738	819	890	867
Annual bonus (%)	50.1%	60.5%	–	N/A	N/A	34.0%	65.0%	63.0%	95.0%	–	62.6%	20.0%	61.0%
LTIP vesting (%)	100.0%	–	–	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 2014.

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.

Directors' remuneration report

How the change in chief executive officer 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 chief executive officer compared to the percentage change of each of those components of pay of the average of a group of employees. The committee has selected UK-based salaried employees as this geography provides the most appropriate comparator.

	2020 £000	2019 £000	% change
Chief executive officer			
Salary	**356**	350	1.7%
Benefits	**19**	19	0.0%
Bonus	**219**	70	212.8%
Average employees			
Salary	**46**	44	5.6%
Benefits	**5**	5	0.7%
Bonus	**2**	2	19.7%

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)
2020	Option A	30:1	22:1	17:1

Pay details for the chief executive officer and individual whose 2020 remuneration is at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Chief executive officer	25th percentile	Median	75th percentile
Year	£000	£000	£000	£000
Salary	356	26	38	48
Total pay and benefits	867	29	40	51

Relative importance of spend on pay

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:

	2020 £000	2019 £000	% change
Staff costs	**70,714**	64,614	9.4%
Revenue	**327,364**	274,917	19.1%
Underlying operating profit	**26,978**	23,256	16.0%
Dividends	**8,851**	13,353	-33.7%

Shareholder voting

The results below show the response to the 2019 AGM shareholder voting for the directors' 2019 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	241,737,371	99.89%
Against	254,417	0.11%
Total votes cast (for and against)	241,991,788	100%
Withheld votes	1,632,127	N/A
Total votes (including withheld votes)	243,623,915	N/A

The results below show the response to the 2017 AGM shareholder voting for the directors' 2017 remuneration policy:

	Total number of votes	% of votes cast
For	231,684,761	99.66%
Against	801,189	0.34%
Total votes cast (for and against)	232,485,950	100%
Withheld votes	60,928	N/A
Total votes (including withheld votes)	232,546,878	N/A

Implementation of policy for 2021

The executive directors' current salaries

The salaries of the executive directors will be reviewed at the earliest in October 2020, with the exception of Adam Semple whose salary will be increased to £250,000 on 1 July 2020 for the reasons previously explained. Increases will be set in the context of overall salary increases for the wider workforce, unless special circumstances apply, as in the case of Adam Semple.

The executive directors' salaries at the start of the 2021 financial year are as follows:

	£
Alan Dunsmore	358,400
Ian Cochrane	319,385
Adam Semple	235,000
Derek Randall	262,660

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. The company pension allowance level for new executive director appointments will be aligned to those 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.

The maximum pension allowance in policy for incumbent directors will be reduced as from 1 April 2021. The pension contribution levels for incumbent directors will further reduce over the course of the policy to 15 per cent by the end of the policy as follows:

	Current	From 1 April 2021	From 1 April 2022	From 1 April 2023
Chief executive officer	20%	19%	17%	15%
Others	18%	17%	16%	15%

Full alignment to the level of the majority of the UK workforce will be achieved by the end of the next policy at the latest.

Directors' remuneration report

Rewards for performance in 2021

Bonus

The decision on whether to operate the annual bonus plan for executive directors for 2021 will be deferred until there is some greater clarity on the current COVID-19 pandemic and the wider implications for the Group. In any event, the maximum bonus opportunity for 2021 will be held at the level for the previous financial year, being 100 per cent of salary. Performance measures and targets will be disclosed in the relevant year.

PSP

Consideration of the grant of PSP awards for 2021 has been deferred until October 2020 at the earliest but if made will be no higher than 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.

Any PSP grants will set a performance condition for a three-year period which will reflect the continuing expected recovery of profitability, recognising that market conditions remain challenging in many areas.

When setting a target range, the committee will consider a number of reference points including internal financial forecasts, external analyst consensus, the base EPS and a broad view of the wider construction industry. This will reflect, in the view of the committee, a realistic performance range whilst maintaining the targets at an appropriately stretching level. They will require management to deliver strong, sustainable performance over the period without encouraging undue risk-taking and in the context of the market environment will be at a level which are considered more challenging than targets set for prior awards.

How will the non-executive directors be paid in the 2021 financial year?

The fees for the chairman and non-executive directors will be as follows:

£	2021	2020
Chairman	125,000	125,000
Basic fee for other non-executive directors	40,000	40,000
Additional fee for SID role	5,000	5,000
Additional fee for chairman of audit and remuneration committees	5,000	5,000

Approval

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

Alun Griffiths
Chairman of the remuneration committee

17 June 2020

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
17 June 2020

Adam Semple
Group finance director
17 June 2020

OUR FINANCIALS

Our financials — Group

Our financials — Company

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 2020 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 appointed as auditor by the shareholders on 2 September 2015. The period of total uninterrupted engagement is for the five financial years ended 31 March 2020. 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	£1.3m (2019: £1.2m) 4.9% (2019: 4.9%) of profit before tax	
Coverage	96% (2019: 97%) of Group profit before tax	
Key audit matters		**vs 2019**
Event driven	Going concern	▲
Recurring risk	Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts	◀▶
Event driven	Valuation of intangible assets and contingent consideration for Harry Peers	▲
Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Carrying value of parent Company's investments in subsidiaries, joint ventures and associates	◀▶

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 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
Going concern *Refer to page 50 (operating performance), page 58 (financial performance), page 63 (viability statement), page 78 (principal risks), page 110 (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 second 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 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 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.

Independent Auditor's Report

to the members of Severfield plc

2. Key audit matters: including our assessment of risks of material misstatement (continued)

<table>
<tr><th></th><th>The risk</th><th>Our response</th></tr>
<tr><td>Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts

Revenue: £327.4m (2019: £274.9m)

Construction contract assets: £29.1m (2019: £28.4m)

Refer to page 110 (audit committee report), pages 162, 164 and 168 (accounting policies, judgements and estimates) and note 17 (construction contracts).</td><td>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 customer claims, that depend on the outcome of future events resulting in revisions throughout the contract period. These uncertainties have increased as a result of COVID-19.

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.</td><td>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.

– 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 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 discussions 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 (2019: acceptable).</td></tr>
</table>

	The risk	Our response
Valuation of intangible assets identified and contingent consideration in relation to Harry Peers acquisition Goodwill: £16.0m Intangible Assets: £7.4m (net of in year amortisation of £1.4m). Contingent Consideration: £6.3m (including unwind of discount of £0.5m) *Refer to page 50 (operating performance), page 58 (financial performance), page 110 (audit committee report), page 168 (accounting policies, judgements and estimates and note 21 (business combinations).*	**Subjective estimate** On 01 October 2019 the Group acquired Harry Peers & Co Limited ('Harry Peers') for a total net cash consideration of £24.7m, of which £18.9m was net cash consideration, and £5.8m was the fair value of contingent consideration, which has a maximum potential payment of £7m 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 Harry Peers, the timing of future cash flows and the discount rate applied. The effect of these matters is that, as part of our risk assessment, we determined that valuation of intangible assets identified and contingent consideration in relation to Harry Peers 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 brand and customer list intangible assets. – **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 to changes in the key assumptions, noted above. – **Historical comparisons:** Evaluating how management's assumptions for future performance at acquisition date compared to actual performance, both prior to acquisition and since. – **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the identification and valuation of acquisition related intangible assets. **Our results:** – We found the valuation of the intangible assets and contingent consideration recognised on acquisition of Harry Peers, and the related recognition of goodwill on acquisition to be acceptable.

Independent Auditor's Report

to the members of Severfield plc

2. Key audit matters: including our assessment of risks of material misstatement (continued)

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 62 (financial performance), page 63 (viability statement), page 78 (principal risks) and page 104 (corporate governance report).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the carrying value of construction contract assets and revenue and profit recognised on construction contracts below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the annual report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. – **Sensitivity analysis:** When addressing the carrying value of construction contract assets and revenue and profit recognised on construction contracts and other audit areas that depend on forecasts (including going concern, see below), we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the carrying value of construction contract assets and revenue and profit recognised on construction contracts, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** – As reported under the carrying value of construction contract assets and revenue and profit recognised on construction contracts, we found resulting estimates and related disclosures of construction contacts and disclosures in relation to going concern to be acceptable (2019: acceptable). However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Carrying value of parent Company's investments in subsidiaries and joint ventures £128.8m (2019: £104.1m) *Refer to page 198 (accounting policy) and page 200 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries and joint ventures represents 51% (2019: 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 (2019: 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 £1,335,000 (2019: £1,200,000), determined with reference to a benchmark of Group profit before tax (normalised to exclude this year's costs relating to the acquisition of Harry Peers as disclosed in note 5, of £1,387,000), of which it represents 4.9 per cent (2019: 4.9 per cent).

Materiality for the parent Company financial statements as a whole was set at £900,000 (2019: £900,000), determined with reference to a benchmark of Company total assets, of which it represents 0.4 per cent (2019: 0.4 per cent).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £66,750, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's ten (2019: nine) reporting components, we subjected seven (2019: six) to full scope audits for Group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

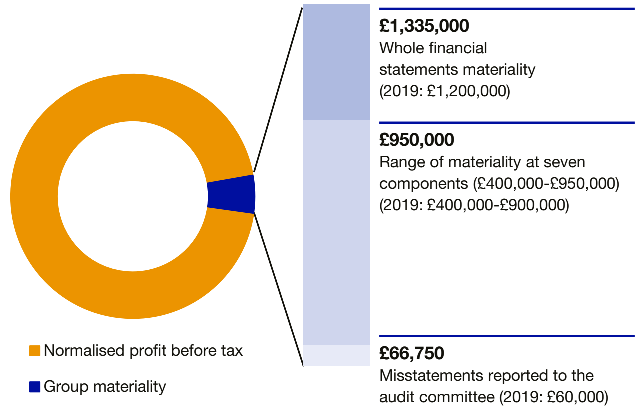
The remaining six per cent of total Group revenue, four per cent of Group profit before tax and two per cent of total Group assets is represented by three reporting components, none of which individually represented more than three per cent of any of total Group revenue, Group profit before tax or total 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 £400,000 to £950,000 (2019: £400,000-£900,000), having regard to the mix of size and risk profile of the Group across the components. The work on one of the ten components (2019: one of the nine components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

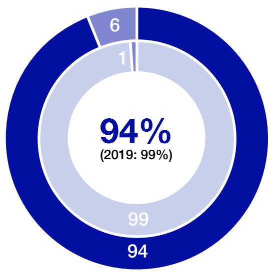
The Group team held video and telephone conference meetings with one (2019: one) component location in India (2019: India). At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor. 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
£27,200,000 (2019: £24,711,000)

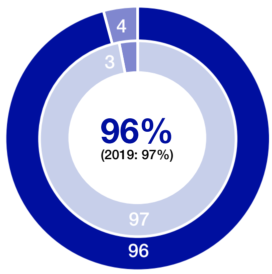
Group Materiality
£1,335,000 (2019: £1,200,000)



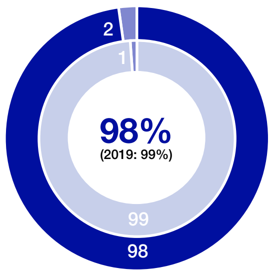
Group revenue



Group profit before tax



Group total assets



Full scope for Group audit purposes 2020
Full scope for Group audit purposes 2019
Residual components

Independent Auditor's Report

to the members of Severfield plc

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything 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 a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. 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.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the viability statement (page 63) that they have carried out a robust assessment of the 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 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

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 report to you if:

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

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 143, 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 other irregularities (see below), 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, other irregularities 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.**

Irregularities – ability to detect

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 discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. 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 component audit teams of relevant laws and regulations identified at Group level.

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 and taxation 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, employment law. 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. These limited procedures did not identify actual or suspected non-compliance.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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

17 June 2020

Consolidated income statement

Year ended 31 March 2020

	Note	Underlying 2020 £000	Non-underlying 2020 £000	Total 2020 £000	Underlying 2019 £000	Non-underlying 2019 £000	Total 2019 £000
Continuing operations							
Revenue	3	327,364	–	327,364	274,917	–	274,917
Operating costs	4	(300,386)	(2,294)	(302,680)	(251,661)	–	(251,661)
Operating profit before share of results of JVs and associates		26,978	(2,294)	24,684	23,256	–	23,256
Share of results of JVs and associates	15	2,355	–	2,355	1,650	–	1,650
Operating profit		29,333	(2,294)	27,039	24,906	–	24,906
Net finance expense	7	(712)	(514)	(1,226)	(195)	–	(195)
Profit before tax		28,621	(2,808)	25,813	24,711	–	24,711
Taxation	8	(4,959)	(439)	(5,398)	(4,549)	–	(4,549)
Profit for the year attributable to the equity holders of the parent		23,662	(3,247)	20,415	20,162	–	20,162
Earnings per share:							
Basic	10	7.74p	(1.06)p	6.68p	6.65p	–	6.65p
Diluted	10	7.70p	(1.06)p	6.64p	6.58p	–	6.58p

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 2020

	Note	2020 £000	2019 £000
Actuarial gain/(loss) on defined benefit pension scheme*	30	**255**	(3,702)
(Losses)/gains taken to equity on cash flow hedges	25	**(1,403)**	540
Reclassification adjustments on cash flow hedges	25	**(410)**	129
Exchange difference on foreign operations	25	**(34)**	16
Tax relating to components of other comprehensive income*	20	**(184)**	624
Other comprehensive income for the year		**(1,776)**	(2,393)
Profit for the year from continuing operations		**20,415**	20,162
Total comprehensive income for the year attributable to equity holders of the parent		**18,639**	17,769

* These items will not be subsequently reclassified to the consolidated income statement.

Consolidated balance sheet

At 31 March 2020

	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Goodwill	11	70,714	54,712
Other intangible assets	12	7,375	–
Property, plant and equipment	13	88,864	83,986
Right-of-use asset	14	10,140	–
Interests in JVs and associates	15	26,690	24,335
		203,783	163,033
Current assets			
Inventories	16	6,856	8,915
Contract assets, trade and other receivables — due after one year £3,550 (2019: £1,535)	18	74,612	57,117
Derivative financial instruments	22	–	762
Current tax assets		1,640	–
Cash and cash equivalents	22	44,338	24,979
		127,446	91,773
Total assets		331,229	254,806
Liabilities			
Current liabilities			
Trade and other payables	19	(84,366)	(57,661)
Financial liabilities — borrowings	22	(19,375)	–
Financial liabilities — leases	22	(1,502)	(49)
Derivative financial instruments	22	(1,135)	–
Current tax liabilities		–	(928)
		(106,378)	(58,638)
Non-current liabilities			
Retirement benefit obligations	30	(18,688)	(19,972)
Financial liabilities — borrowings	22	(8,750)	–
Financial liabilities — leases	22	(9,729)	–
Deferred tax liabilities	20	(4,009)	(1,189)
		(41,176)	(21,161)
Total liabilities		(147,554)	(79,799)
Net assets		183,675	175,007
Equity			
Share capital	24	7,648	7,600
Share premium		87,292	87,254
Other reserves	25	1,402	3,819
Retained earnings		87,333	76,334
Total equity		183,675	175,007

The consolidated financial statements were approved by the board of directors on 17 June 2020 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

Consolidated statement of changes in equity

Year ended 31 March 2020

	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.

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2018		7,492	85,702	4,749	71,054	168,997
Total comprehensive income for the year		–	–	685	17,084	17,769
Ordinary shares issued*		108	1,552	–	–	1,660
Equity settled share-based payments	23	–	–	(1,615)	1,549	(66)
Dividends paid		–	–	–	(13,353)	(13,353)
At 31 March 2019		7,600	87,254	3,819	76,334	175,007

* The issue of shares represents shares allotted to satisfy the 2015 Performance Share Plan award which vested in June 2018 and the 2015 Sharesave scheme.

Consolidated cash flow statement

Year ended 31 March 2020

	Note	2020 £000	2019 £000
Net cash flow from operating activities	26	**21,980**	14,616
Cash flows from investing activities			
Proceeds on disposal of land and buildings		**–**	10
Proceeds on disposal of other property, plant and equipment		**267**	724
Purchases of land and buildings		**(1,519)**	(485)
Purchases of other property, plant and equipment		**(4,945)**	(6,516)
Investment in JVs and associates		**–**	(4,229)
Investment in subsidiary entity, net of cash acquired		**(13,390)**	–
Net cash used in investing activities		**(19,587)**	(10,496)
Cash flows from financing activities			
Interest paid		**(598)**	(382)
Dividends paid		**(8,851)**	(13,353)
Proceeds from shares issued		**86**	1,660
Proceeds from borrowings		**29,000**	–
Repayment of borrowings		**(875)**	–
Repayment of lease liabilities		**(1,796)**	(180)
Net cash used in financing activities		**16,966**	(12,255)
Net increase/(decrease) in cash and cash equivalents		**19,359**	(8,135)
Cash and cash equivalents at beginning of year		**24,979**	33,114
Cash and cash equivalents at end of year	27	**44,338**	24,979

Notes to the consolidated financial statements

Year ended 31 March 2020

1. Significant accounting policies

General information

Severfield plc ('the Company') is a company incorporated in the United Kingdom under the Companies Act 2006. 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 22 to 31. 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 also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The 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

With the exception of IFRS 16, the following new and amended standards, adopted in the current financial year, had no significant impact on the financial statements.

- IFRS 16 'Leases' – provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed.
- IFRIC 23 'Uncertainty over income tax treatments' – addresses the determination of taxable profit, tax bases, tax rates and unused tax losses and credits, where there is uncertainty over income tax treatments under IAS 12.
- IFRS 9 'Financial instruments' – amendments relating to prepayment features with negative compensation to address the concerns about how IFRS 9 classifies particular prepaid financial assets.
- IAS 28 'Investments in associated and joint ventures' – amendments to long-term interests in associated and joint ventures.
- IAS 19 'Employee benefits' – amendments to accounting for curtailments and settlements.
- Annual improvements to IFRS Standards 2015-2017 cycle.

IFRS 16 'Leases'

The Group adopted IFRS 16 'Leases' on 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 'Leases'. The standard has resulted in many operating leases being recognised as right-of-use assets and lease liabilities on the consolidated balance sheet, as the classification as either operating leases or finance leases has been eliminated.

Within opening balances as at 1 April 2019, the Group has recognised right-of-use assets of £11,195,000 and a corresponding lease liability of £12,305,000, with a consequential deferred tax asset of £215,000, the impact on the opening reserves at 1 April 2019 being £895,000.

The Group has elected to use the following practical expedients permitted by the standard:

- On initial application:
  - leases where the lease term ends within 12 months of the date of initial application of IFRS 16 are classified as short-term and continue to be expensed in the income statement;
  - leases of low value assets, considering the basis for conclusions specified in IFRS 16 as assets less than £5,000, continue to be expensed in the income statement;
  - IFRS 16 has only been applied to contracts that were previously classified as leases; and
  - reliance on previous assessments on whether leases are onerous instead of performing an impairment review.

On transition, for leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019, where the interest rate implicit in the lease cannot be identified. The incremental borrowing rates applied to the lease liabilities on 1 April 2019 were between 2.2 per cent and 3.5 per cent based on the lease term. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Operating lease expenses have been replaced by a depreciation charge for right-of-use assets and a finance expense on lease liabilities. This resulted in an increase in depreciation of £1,585,000 and in increase in finance expenses of £388,000.

Notes to the consolidated financial statements

Year ended 31 March 2020

1. Significant accounting policies continued

Reconciliation from IAS 17 to IFRS 16 disclosures as at 1 April 2019

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 as at 31 March 2019 in the Group's financial statements and the lease liabilities recognised at 1 April 2019:

	1 April 2019 £000
Operating lease commitments at 31 March 2019 as disclosed under IAS 17	(17,931)
Impact of discounting using the incremental borrowing rate at 1 April 2019	5,410
Finance lease liabilities recognised as at 31 March 2019	(49)
Recognition exemption for leases of low-value assets	31
Recognition exemption for short-term assets	234
Lease liabilities recognised as at 1 April 2019	**(12,305)**

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 2020.

Effective for the year ending 31 March 2021

- 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 IAS39 'Financial instruments: presentation' – amendment requiring additional disclosures around uncertainty arising from the interest rate benchmark reform.
- Amendments to references to conceptual framework in IFRS standards.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the consolidated 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 consolidated financial statements.

In determining whether the going concern basis is appropriate, the directors have prepared detailed forecasts that extend for a period of at least 12 months from the date of approving the financial statements. These forecasts considered the Group's future development, performance and its financial position, including cash flows, liquidity position and borrowing facilities, as well as the risks and uncertainties relating to its business activities. The following factors were considered as relevant:

- The potential impact of COVID-19 on the Group's profit and cash flows.
- The current 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 2020 and is expected to continue doing so in the 2021 financial year and beyond.
- 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 covenants attached to them.

The directors have reviewed these forecasts in light of the potential impacts of the COVID-19 pandemic. At this early point in the financial year it is impossible to predict the full extent of the financial impact of COVID-19 over the course of the year and a wide range of profit and cash outcomes are possible. The directors have modelled a broad range of scenarios including a 'base case', 'a severe but plausible' scenario and a 'worst case' scenario. There are many assumptions that sit behind these scenarios, above and beyond the duration of different stages of lockdown, and there is not necessarily a linear relationship between the duration of COVID-19 and the impact on revenue and costs. However, even in the 'worse case' scenario, with a strong balance sheet, the directors are confident that the Group has sufficient cash and committed funding in place to meet its obligations for the foreseeable future.

At 31 March 2020, the Group's net funds were £16.4m, comprising cash of £44.3m, unamortised debt arrangement fees of £0.2m offset by the outstanding term loan of £13.1m for the Harry Peers acquisition and borrowings under the Group's revolving credit facility ('RCF') of £15.0m. The Group has a £25m revolving credit facility with HSBC and Yorkshire Bank that matures in October 2023. The RCF, of which £10m is available as an overdraft facility, includes an additional accordion facility of £20m, which allows the Group to increase the aggregate available borrowings to £45m.

1. Significant accounting policies continued

The directors also considered the impact of uncertainties concerning the UK government's ongoing negotiations on a trade deal and future co-operation with the EU. Whilst the Group is currently forecasting no significant impact on short-term cash flows, the directors continue to monitor developments in this area and potential risks arising to the Group's businesses. The Group has taken steps to prepare for the potential outcomes in December 2020 of these trade negotiations and has plans in place to ensure it can continue to deliver on current and future commitments.

Based on these indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

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 in previous years 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. They have been separately identified as a result of their magnitude, incidence or unpredictable nature.

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.

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.

Notes to the consolidated financial statements

Year ended 31 March 2020

1. Significant accounting policies continued

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.

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.

1. Significant accounting policies continued

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. The majority of 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.

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.

Notes to the consolidated financial statements

Year ended 31 March 2020

1. Significant accounting policies continued

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.

1. Significant accounting policies continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

Dividends are recorded in the 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

Policy applicable from 1 April 2019

The Group adopted IFRS 16 ‘Leases’ on 1 April 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 ‘Leases’. The standard has resulted in many operating leases being recognised as right-of-use assets and lease liabilities on the consolidated balance sheet, as the classification as either operating leases or finance leases has been eliminated.

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.

Notes to the consolidated financial statements

Year ended 31 March 2020

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.

Policy applicable before 1 April 2019

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership of the leased asset as finance leases. All other assets were classified as operating leases. Assets classified as finance leases were capitalised in the balance sheet at fair value and depreciated in accordance with the Group's accounting policy. The capital element of the leasing commitment was included as obligations under finance leases. The rentals payable were apportioned between interest, which is charged to the income statement, and capital, which reduced the outstanding obligation.

Operating lease rentals and any incentives receivable were recognised in the income statement on a straight-line basis over the term of the lease.

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.

1. Significant accounting policies continued

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are classified as loans and receivables, and therefore measured at amortised cost using the effective interest method, with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement in line with the requirements of IFRS 9.

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.

Notes to the consolidated financial statements

Year ended 31 March 2020

1. Significant accounting policies continued

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.

At the balance sheet date, amounts due from construction contract customers, included in contract assets, trade and other receivables was £29,048,000 (2019: £28,419,000).

Identification and valuation of intangible assets arising on the acquisition of Harry Peers

Measurement of 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. Management believes that the assigned values and useful lives, 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 and the acquired intangible assets’ useful lives are disclosed in note 21 and note 1 respectively.

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.

2. Critical accounting judgements and estimates continued

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 £18,688,000 (2019: £19,972,000).

Of the items discussed above, revenue and profit recognition represents the key source of estimation uncertainty.

3. Revenue and segmental analysis

Revenue

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

	2020 £000	2019 £000
Revenue from construction contracts	327,364	274,917
Other operating income (note 4)	1,244	982
Interest received (note 7)	53	34
Total income	328,661	275,933

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.

	2020 £000	2019 £000
Revenue by destination:		
United Kingdom	215,898	240,875
Republic of Ireland and mainland Europe	111,466	34,042
	327,364	274,917

Notes to the consolidated financial statements

Year ended 31 March 2020

3. Revenue and segmental analysis continued

Contract balances

The following table provides information about the receivables, contract assets and contract liabilities from contracts with customers:

	2020 £000	2019 £000
Receivables which are included in 'contract assets, trade and other receivables' (note 18)	62,254	47,983
Contract assets (note 18)	29,048	28,419
Contract liabilities (note 17)	(1,179)	(1,349)

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 £1,349,000, of which £1,236,000 has been recognised as revenue for the year ended 31 March 2020.

There was no revenue recognised in the current financial year from performance obligations satisfied or partially satisfied in previous years.

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 2020 and have an original expected contract duration of more than one year:

	2021 £000	2022 £000
Construction contracts	184,396	11,068

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earnt 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 £47,655,000 relating to one major customer, who individually contributed more than 10 per cent of Group revenue in the year ended 31 March 2020. In the prior year no customers contributed more than 10 per cent of Group revenue.

4. Operating costs

	2020 £000	2019 £000
Raw materials and consumables (including subcontractor costs)	189,650	152,986
Staff costs (note 6)	70,714	64,614
Other operating charges	35,465	28,654
Amortisation of other intangible assets (note 12)	–	103
Operating lease expense:		
— plant and machinery	160	1,219
— other	128	1,418
Depreciation (notes 13 and 14):		
— owned property, plant and equipment	3,928	3,556
— right-of-use assets	1,585	93
Other operating income	(1,244)	(982)
Operating costs before non-underlying items	300,386	251,661
Non-underlying items (note 5)	2,294	–
	302,680	251,661
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	23	21
Fees payable to the Company's auditor for other services:		
— the audit of the Company's subsidiaries pursuant to legislation	217	164
— audit-related assurance services	25	25
— other assurance services	40	23

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 £59,000 (2019: £37,000) 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 112 and 113. No services were performed pursuant to contingent fee arrangements.

5. Non-underlying items

	2020 £000	2019 £000
Operating costs	2,294	–
Finance expense	514	–
Non-underlying items before tax	2,808	–
Tax on non-underlying items	439	–
Non-underlying items after tax	3,247	–

Non-underlying items consisted of the amortisation of acquired intangible assets of £1,421,000 (2019: £nil) and acquisition-related expenses of £1,387,000 (2019: £nil). 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 include non-recurring legal and consultancy costs associated with the Harry Peers acquisition of £873,000 (2019: £nil) and the finance expense associated with the unwinding of the contingent consideration discount rate of £514,000 (2109: £nil).

The basis for stating results on an underlying basis is set out on page 7. 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.

Notes to the consolidated financial statements

Year ended 31 March 2020

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 134.

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

	2020 Number	2019 Number
Production and site	1,149	1,132
Sales and administration	171	142
	1,320	1,274

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	61,239	55,988
Social security costs	6,346	6,096
Other pension costs	3,129	2,530
	70,714	64,614

Employee remuneration costs under share-based payment schemes are set out in note 23.

7. Net finance expense

	2020 £000	2019 £000
Finance income	(53)	(34)
Finance expense	1,279	229
	1,226	195

8. Taxation

a) The taxation charge comprises:

	2020 £000	2019 £000
Current tax		
UK corporation tax	(3,945)	(3,721)
Adjustments to prior years' provisions	(578)	(378)
	(4,523)	(4,099)
Deferred tax (note 20)		
Current year charge	(706)	(625)
Impact of change in future years' tax rates	(242)	—
Adjustments to prior years' provisions	73	175
	(875)	(450)
	(5,398)	(4,549)

8. Taxation continued

b) Tax reconciliation

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

	2020 £000	2019 £000
Profit before tax	25,813	24,711
Tax on profit at standard UK corporation tax rate	(4,904)	(4,695)
Expenses not deductible for tax purposes	(194)	36
Tax effect of share of results of JVs and associates	447	313
Adjustments to prior years' provisions	(505)	(203)
Rate differences	(242)	–
	(5,398)	(4,549)

Corporation tax was calculated at 19 per cent (2019: 19 per cent) of the estimated taxable result for the year.

The change to the UK corporation tax rate, to remain at 19 per cent, was announced in the 2020 Budget in March 2020 and substantively enacted on 17 March 2020.

9. Dividends

	2020 £000	2019 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2019 of 1.8p per share (2018: 1.7p)	5,493	5,158
Special dividend for the year ended 31 March 2019 of nil per share (2018: 1.7p)	–	5,158
Interim dividend for the year ended 31 March 2020 of 1.1p per share (2019: 1.0p)	3,358	3,036
	8,851	13,353

The directors are not recommending a final dividend in respect of the financial year ended 31 March 2020.

10. Earnings per share

Earnings per share is calculated as follows:

	2020 £000	2019 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent Company	20,415	20,162
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent Company	23,662	20,162

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	305,428,749	303,092,067
Effect of dilutive potential ordinary shares	1,701,466	3,170,237
Weighted average number of ordinary shares for the purposes of diluted earnings per share	307,130,215	306,262,304

	2020	2019
Basic earnings per share	6.68p	6.65p
Underlying basic earnings per share	7.74p	6.65p
Diluted earnings per share	6.64p	6.58p
Underlying diluted earnings per share	7.70p	6.58p

Notes to the consolidated financial statements

Year ended 31 March 2020

10. Earnings per share continued

Reconciliation of earnings	2020 £000	2019 £000
Net profit attributable to equity holders of the parent Company	20,415	20,162
Non-underlying items	3,247	–
Underlying net profit attributable to equity holders of the parent Company	23,662	20,162

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 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
	70,714

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 (2019: 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 (2019: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 31 March 2020.

Management has analysed a number of sensitivity scenarios when performing the impairment reviews, including a reduction in operating margin and an increased 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 2020.

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
Cost			
At 1 April 2018 and 1 April 2019	**–**	**1,033**	**1,033**
Additions	8,796	–	8,796
At 31 March 2020	**8,796**	**1,033**	**9,829**
Amortisation			
At 1 April 2018	**–**	**930**	**930**
Charge for the year	–	103	103
At 1 April 2019	**–**	**1,033**	**1,033**
Charge for the year	1,421	–	1,421
At 31 March 2020	**1,421**	**1,033**	**2,454**
Carrying amount			
At 31 March 2020	**7,375**	**–**	**7,375**
At 31 March 2019	–	–	–

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 2018 and 1 April 2019	**–**	**–**	**–**	**–**
Additions	6,070	813	1,913	8,796
At 31 March 2020	**6,070**	**813**	**1,913**	**8,796**
Amortisation				
At 1 April 2018 and 1 April 2019	–	–	–	–
Charge for the year	709	74	638	1,421
At 31 March 2020	**709**	**74**	**638**	**1,421**
Net book value				
At 31 March 2020	**5,361**	**739**	**1,275**	**7,375**
At 31 March 2019	–	–	–	–

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).

Notes to the consolidated financial statements

Year ended 31 March 2020

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 2018	66,281	39,780	5,924	238	112,223
Additions	485	3,191	3,158	167	7,001
Disposals	(10)	(1,076)	–	(178)	(1,264)
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 31 March 2020	**70,447**	**44,806**	**10,608**	**400**	**126,261**
Accumulated depreciation					
At 1 April 2018	5,490	23,885	1,450	159	30,984
Charge for the year	551	2,461	578	59	3,649
Disposals	–	(508)	–	(151)	(659)
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 31 March 2020	**6,658**	**27,826**	**2,796**	**117**	**37,397**
Carrying amount					
At 31 March 2020	**63,789**	**16,980**	**7,812**	**283**	**88,864**
At 31 March 2019	60,715	16,057	7,054	160	83,986

Finance leases are now are recorded as 'right-of-use assets' in accordance with IFRS 16 'Leases'. In the prior year, the net book value of the Group's plant and machinery included £184,000 of assets held under finance lease. This was transferred to right-of-use assets upon transition to IFRS 16.

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 31 March 2020	**9,420**	**300**	**2,005**	**11,725**
Accumulated depreciation				
At 1 April 2019	—	—	—	—
Charge for the year	830	137	618	1,585
At 31 March 2020	**830**	**137**	**618**	**1,585**
Balance at 31 March 2020	**8,590**	**163**	**1,387**	**10,140**

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.

JSW Severfield Structures Limited is registered in India. During the prior year, the Group invested a further £4,229,000 in the joint venture to support the expansion of the Bellary facility (which was matched by our joint venture partner, JSW Steel). This expansion was complete at 31 March 2020.

Notes to the consolidated financial statements

Year ended 31 March 2020

15. Interests in JVs and associates continued

The Group did not make any further investments in either CMF Limited, or Fabsec Limited during the year (2019: £nil).

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 1 April 2018	5,326	13,130	18,456
Profit retained	–	1,650	1,650
Investments made during the year	–	4,229	4,229
At 1 April 2019	**5,326**	**19,009**	**24,335**
Profit retained	–	2,355	2,355
At 31 March 2020	**5,326**	**21,364**	**26,690**

The Group's share of the 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
2020	**–**	**2,190**	**165**	**2,355**
2019	–	1,225	425	1,650

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	2020 £000	2019 £000
Current assets	1,176	73,767	10,279	**85,222**	91,871
Non-current assets	16	34,322	4,518	**38,856**	29,298
Current liabilities	(24)	(71,684)	(7,324)	**(79,032)**	(82,237)
Non-current liabilities	(2,239)	(2,333)	(1,389)	**(5,961)**	(4,483)
Net assets	**(1,071)**	**34,072**	**6,084**	**39,085**	**34,449**
Group's share of net (liabilities)/assets	(268)	17,036	3,042	**19,810**	17,495
Goodwill	–	–	5,326	**5,326**	5,326
Accounting policy alignment	268	1,265	21	**1,554**	1,514
Carrying amount of interest in JVs and associates	**–**	**18,301**	**8,389**	**26,690**	**24,335**
Revenue	192	105,942	26,658	**129,792**	110,921
Depreciation and amortisation	(50)	(1,896)	(69)	**(2,015)**	(1,741)
Net finance expense	–	(2,808)	(100)	**(2,908)**	(2,348)
Taxation	(4)	(1,460)	(82)	**(1,546)**	(1,236)
Profit after tax	–	4,380	330	**4,710**	3,300
Group's share of profit after tax	**–**	**2,190**	**165**	**2,355**	**1,650**

There were no contingent liabilities or capital commitments (2019: none) associated with the Group's JVs and associates.

16. Inventories

	2020 £000	2019 £000
Raw materials and consumables	**4,993**	6,315
Work-in-progress	**1,863**	2,600
	6,856	8,915

17. Construction contracts

	2020 £000	2019 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in contract assets, trade and other receivables	**62,254**	47,983
Amounts due to construction contract customers included in trade and other payables	**(1,179)**	(1,349)
	61,075	46,634
Contract costs incurred plus recognised profits less recognised losses to date	**340,125**	279,423
Less: progress billings received	**(279,050)**	(232,789)
	61,075	46,634

18. Contract assets, trade and other receivables

	2020 £000	2019 £000
Amounts due from construction contract customers (note 17):		
Trade receivables and other*	**33,206**	19,564
Contract assets	**29,048**	28,419
Total	**62,254**	47,983
Other receivables	**5,360**	1,479
Prepayments and accrued income	**5,344**	5,498
Amounts due from JVs and associates	**1,654**	2,157
	74,612	57,117

* Included in trade receivables and other is £3,550,000 (2019: £1,535,000) relating to retentions due after one year.

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 46 days (2019: 66 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 2020 were £150,000 (2019: £57,000).

Notes to the consolidated financial statements

Year ended 31 March 2020

19. Trade and other payables

	2020 £000	2019 £000
Trade creditors	**46,886**	36,687
Other taxation and social security	**5,495**	5,540
Other creditors and accruals	**29,507**	12,889
Payments in advance (note 17)	**1,179**	1,349
Amounts owed to JVs and associates	**1,299**	1,196
	84,366	57,661

Other creditors and accruals in the current and prior years include the outstanding purchase consideration for CMF Limited of £1,000,000 (2019: £2,000,000), which is payable over the next two years, subject to certain conditions beyond the Group's control.

Other creditors and accruals in the current year includes the outstanding purchase consideration for Harry Peers of £5,793,000 together with the associated unwind of the contingent consideration discount rate, which is payable in the year to 31 March 2021, 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 54 days (2019: 52 days).

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:

	2020 £000	2019 £000
Deferred tax liabilities	**(8,166)**	(5,458)
Deferred tax assets	**4,157**	4,269
	(4,009)	(1,189)

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 2018	(5,364)	–	2,931	–	1,070	(1,363)
(Charge)/credit to income statement	(94)	–	(166)	153	(343)	(450)
Credit/(charge) to other comprehensive income	–	–	629	–	(5)	624
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 31 March 2020	**(6,765)**	**(1,401)**	**3,551**	**213**	**393**	**(4,009)**

21. Business combinations

Summary of acquisition

On 1 October 2019, Severfield plc acquired 100 per cent of the share capital of Harry Peers Group, comprising the parent company, Harry Peers & Co Limited, and the trading company, Harry Peers Steelwork Limited (together 'Harry Peers'). Harry Peers is a leading full-service structural steelwork business operating in the UK and is registered in England and Wales. The Severfield board believes that the long-term investment profile of Harry Peers' key market positions in the highly regulated markets of nuclear, process industries and power generation, enhances its areas of expertise and broadens its market exposure.

The net consideration of £24.7m comprises:

	£000
Gross initial cash consideration	30,792
Contingent consideration	5,793
Gross consideration	**36,585**
Net cash acquired (excluding payments in advance)	(11,870)
Net consideration	**24,715**

The 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	**2,545**
Current assets	
Contract assets, trade and other receivables	5,227
Cash and cash equivalents (excluding payments in advance)	11,870
	17,097
Total assets	**19,642**
Current liabilities	
Trade and other payables	(5,694)
Current tax liabilities	(179)
	(5,873)
Non-current liabilities	
Deferred tax liabilities	(1,982)
Total liabilities	**(7,855)**
Net assets	**11,787**
Net cash acquired (excluding payments in advance)	(11,870)
Net identifiable assets acquired	**(83)**
Identified intangible assets	**8,796**
Goodwill	**16,002**
Net assets acquired	**24,715**

Goodwill of £16,002,000 represents both existing and new end user customers, which were not recognised separately in accordance with IFRS 3 (Revised) 'Business combinations', the ability and skill of Harry Peers' employees and management, know-how, and the quality of the services provided. 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 acquisition:

	£000
Gross initial cash consideration	30,792
Net cash acquired (including payments in advance)	(17,402)
Total cash outflow – investing activities	**13,390**
Payments in advance	5,532
Net initial cash consideration	**18,922**

Additional consideration of up to £7,000,000 is also payable if certain conditions are achieved during the eleven month earn-out period from 1 October 2019 to 31 August 2020. These conditions include the profitability of the business, the level of order book trading profit at the end of the earn-out period and other qualitative factors. The contingent consideration will be settled in cash on their payment date upon achieving the relevant targets. The range of the additional consideration payments is estimated to be between £nil and £7,000,000.

Notes to the consolidated financial statements

Year ended 31 March 2020

21. Business combinations continued

The Group has included £5,793,000 as the fair value of the contingent consideration after calculating the present value of the future expected cash flows based on the Group expectation of what it will pay in relation to the post-acquisition performance of the acquired business, using a risk-adjusted discount rate of 18 per cent (which is based on Harry Peers' internal rate of return).

Acquisition-related costs of £1,387,000 were fully expensed in the period to 31 March 2020 as non-underlying operating costs of £873,000 and a non-underlying finance expense of £514,000 (see note 5).

The acquired business contributed revenues of £14,424,000 and profit after tax of £1,176,000 (after taking into account finance expenses on the acquisition loan of £14.0m) to the Group for the period from 1 October 2019 to 31 March 2020.

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 while 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

	2020 £000	2019 £000
Borrowing	(28,125)	–
Cash and cash equivalents	44,338	24,979
Unamortised debt arrangement fees	177	226
Finance leases	–	(49)
Net funds	16,390	25,156
Equity	183,675	175,007
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.

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.

	2020 £000	2019 £000
Underlying operating profit		
Underlying operating profit (before JVs and associates)	26,978	23,256
Share of results of JVs and associates	2,355	1,650
	29,333	24,906
Capital employed:		
Shareholders' equity	183,675	175,007
Cash and cash equivalents	(44,338)	(24,979)
Borrowings	28,125	49
Net funds (for ROCE purposes)	(16,213)	(24,930)
Acquired intangible assets	(7,375)	–
Retirement benefit obligations (net of deferred tax) (note 30)	15,137	16,577
	175,224	166,654
Average capital employed	170,939	158,541
Return on capital employed	17.2%	15.7%

Categories of financial instruments

	Carrying value	
	2020 £000	2019 £000
Financial assets		
Cash and cash equivalents	44,338	24,979
Trade receivables and other (note 18)	33,206	19,564
Derivative financial instruments	–	762
Financial liabilities		
Trade creditors (note 19)	(46,886)	(36,687)
Other creditors and accruals (note 19)	(29,507)	(12,889)
Lease liabilities (note 22)	(11,231)	(49)
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.

Notes to the consolidated financial statements

Year ended 31 March 2020

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 2020 were £7,717,000 (2019: £4,559,000).

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.

On 1 October 2019, the Group amended the existing borrowing facilities of £25,000,000 with HSBC Bank plc and Yorkshire Bank. The new agreement maintains a £25,000,000 revolving credit facility ('RCF') that matures in October 2023 and in addition includes a £14,000,000 term loan which will be fully repaid on the same date as the RCF matures. 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 2020, £10,000,000 (2019: £25,000,000) of this facility was not drawn but available. Up to £10,000,000 of this facility is available by way of an overdraft.

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 – 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**
Liabilities – 2019							
Trade and other payables	49,576	47,142	2,081	49	304	–	49,576
Financial liabilities — leases	49	49	–	–	–	–	49
	49,625	47,191	2,081	49	304	–	49,625

	Financial liabilities Leases £000	Borrowings £000
As at 1 April 2019	49	–
Adoption of IFRS 16	12,305	–
Changes from financing activities:		
Proceeds from borrowings	–	29,000
Repayment of borrowings	–	(875)
Repayment of lease liabilities	(1,796)	–
Increase in lease liabilities in the year	285	–
Net interest paid	388	–
As at 31 March 2020	**11,231**	**28,125**

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.

Notes to the consolidated financial statements

Year ended 31 March 2020

22. Financial instruments continued

The carrying value of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
Euro	**(4,879)**	(4,636)	**24,123**	4,380
US dollar	**(9)**	(10)	**15**	16
	(4,888)	(4,646)	**24,138**	4,396

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	
	2020	2019	**2020**	2019
	£000	£000	**£000**	£000
Profit or loss and equity	**(1)**	(1)	**641**	1,838

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 2020, derivatives designated as cash flow hedges were a liability of £1,135,000 (2019: asset of £762,000) and recognised total losses of £1,813,000 (2019: £669,000) in equity and losses of £84,000 (2019: £74,000) in profit and loss in the year.

At 31 March 2020, the Group had forward exchange contracts of 29.4m euros (2019: 20.4m euros) at an average exchange rate of €1.146/£ (2019: €1.126/£) 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 2020 and the Group's equity at that date would decrease by £66,000 (2019: £nil). 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.

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 132 to 142.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £834,000 for the year (2019: £472,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.76 per share. Three outstanding awards had been granted to 31 March 2020:

During the year ended 31 March 2018 the remuneration committee granted 2,261,000 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 2017 to 31 March 2020. The following vesting schedule applies:

Underlying EPS performance for year ended 31 March 2020	% of award vesting
Equal to less than 6.76p	0%
Equal to 7.98p or better	100%
Between 6.76p and 7.98p	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	£0.83*
Exercise price	nil
Expected volatility (using historic performance)	26%
Risk-free rate	0.5%
Dividend	2.7p
Actual life	three years

* Granted on 14 June 2017.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £516,000 (2019: £50,000).

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 (2019: £nil).

Notes to the consolidated financial statements

Year ended 31 March 2020

23. Share-based payments continued

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 (2019: £nil).

Reconciliation of share awards outstanding under the performance share plan are as follows:

	2020 Number	2019 Number
Outstanding at the beginning of the year	7,084,240	7,297,044
Granted during the year	2,861,509	2,224,808
Lapsed during the year	(41,605)	(244,921)
Vested during the year	(3,611,776)	(2,192,691)
Outstanding at the end of the year	**6,292,368**	7,084,240

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 £135,000 (2019: £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 £183,000 (2019: £183,000) was recognised in the current period in relation to the 2018 Sharesave scheme.

Reconciliation of share awards outstanding under the Sharesave plan are as follows:

Save As You Earn option plan ('Sharesave')

	2020 Number	2019 Number
Outstanding at the beginning of the year	**4,224,200**	5,771,734
Granted during the year	–	2,622,874
Lapsed during the year	(259,491)	(1,090,436)
Vested during the year	(413,309)	(3,079,972)
Outstanding at the end of the year	**3,551,400**	4,224,200

24. Share capital

	2020 £000	2019 £000
Issued and fully paid:		
305,928,087 ordinary shares of 2.5p each (2019: 303,984,746 ordinary shares of 2.5p each)	**7,648**	7,600

The ordinary shares carry no right to fixed income. There are no share options outstanding as at 31 March 2020 (2019: 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 2018	4,504	139	106	–	4,749
Share-based payments	(1,615)	–	–	–	(1,615)
Gains taken to equity on cash flow hedges	–	–	540	–	540
Reclassification adjustments on cash flow hedges	–	–	129	–	129
Exchange difference on foreign operations	–	–	–	16	16
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 31 March 2020	**2,319**	**139**	**(1,038)**	**(18)**	**1,402**

The movement in the share-based payment reserve represents the share-based payment charge of £834,000 (2019: £790,000) offset by amounts recycled to retained earnings of £307,000 (2019: £576,000) for share awards vested in the year and £1,097,000 (2019: £857,000) for tax paid on these awards. There was no reserves movement in the year for sharesave schemes. In the prior year, reserves were debited £972,000 for the 2015 Sharesave scheme, which became exercisable during that year.

Notes to the consolidated financial statements

Year ended 31 March 2020

26. Net cash flow from operating activities

	2020 £000	2019 £000
Operating profit from continuing operations	**27,039**	24,906
Adjustments:		
Depreciation of property, plant and equipment (note 13)	**3,928**	3,649
Gain on disposal of other property, plant and equipment	**(68)**	(129)
Amortisation of intangible assets (note 12)	**1,421**	103
Movements in pension scheme (note 30)	**(1,029)**	(978)
Share of results of JVs and associates (note 15)	**(2,355)**	(1,650)
Share-based payments	**(311)**	(66)
Right-of-use asset depreciation (note 14)	**1,585**	–
Operating cash flows before movements in working capital	**30,210**	25,835
Decrease in inventories	**2,059**	731
Increase in receivables	**(12,174)**	(1,969)
Increase/(decrease) in payables	**7,898**	(6,625)
Cash generated from operations	**27,993**	17,972
Tax paid	**(6,013)**	(3,356)
Net cash flow from operating activities	**21,980**	14,616

	2020 £000	2019 £000
Cash generated from operations	**27,993**	17,972
Proceeds on disposal of land and buildings	**–**	10
Proceeds on disposal of other property, plant and equipment	**267**	724
Purchases of land and buildings	**(1,519)**	(485)
Purchases of other property, plant and equipment	**(4,945)**	(6,516)
	21,796	11,705
Underlying operating profit (before JVs and associates)	**26,978**	23,256
Operating cash conversion	**81%**	50%

27. Analysis of net funds

	2020 £000	2019 £000
Borrowings	**(28,125)**	–
Cash and cash equivalents	**44,338**	24,979
Unamortised debt arrangement fees	**177**	226
Financial liabilities — finance leases	**–**	(49)
	16,390	25,156

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 2020 this amounted to £nil (2019: £nil). The Group has also given performance bonds in the normal course of trade.

29. Operating lease arrangements

The Group as lessee

The Group leases a number of its premises under operating leases which expire between 2020 and 2021.

The total future minimum lease rentals are as follows:

	2020 £000	2019 £000
Minimum lease rentals due:		
— Within one year	–	1,153
— After one year and within five years	–	4,316
— After five years	–	10,297
	–	15,766

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

	2020 £000	2019 £000
Minimum lease rentals due:		
— Within one year	22	968
— After one year and within five years	28	1,197
— After five years	–	–
	50	2,165

The Group as lessor

The Group's property rental operating leases expired at the end of the 2018 financial year; as a result, no property rental income was earned on owned properties in the current year (2019: £nil).

Notes to the consolidated financial statements

Year ended 31 March 2020

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 £2,866,000 (2019: £2,304,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 31 March 2020, contributions of £476,000 (2019: £370,000) 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 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 2017 by Mr Christopher Hunter, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2020 %	2019 %
Key assumptions used:		
Discount rate	2.3	2.4
Inflation (RPI)	2.8	3.4
Future pension increases	2.7	3.2

When considering mortality assumptions a life expectancy to 85 at age 65 has been used for the year ended 31 March 2020 (2019: 85).

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 4.1%
Rate of mortality	Increase by one year	Increase by 3.9%
Price inflation	Increase/decrease by 0.25%	Increase/decrease by 3.7%

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

	2020 £000	2019 £000
Interest cost	1,076	1,065
Interest income	(615)	(635)
	461	430

30. Retirement benefit obligations continued

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 £19,931,000 (2019: £20,186,000).

The actual return on scheme assets was a loss of £478,000 (2019: £1,286,000).

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

	2020 £000	2019 £000
Present value of defined benefit obligations	(43,843)	(45,561)
Fair value of scheme assets	25,155	25,589
	(18,688)	(19,972)

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

	2020 %	2019 %
Equities	12.9	16.6
Bonds and gilts	32.4	59.8
Cash	5.8	2.3
Property	8.7	9.8
LDI funds	28.9	–
Other	11.3	11.5
	100.0	100.0

Bonds and gilts include a mixture of corporate and government bonds and fixed and index-linked gilts. Approximately nine per cent of bonds have a sub-investment grade credit rating (BB+ or lower) and approximately 72 per cent of gilts are index-linked, with 28 per cent being fixed.

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

	2020 £000	2019 £000
At start of year	(45,561)	(41,818)
Interest cost	(1,076)	(1,065)
Actuarial gains/(losses)	1,348	(4,353)
Benefits paid	1,446	1,675
At end of year	(43,843)	(45,561)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were losses of £312,000 (2019: losses of £2,917,000), gains of £2,667,000 (2019: losses of £1,452,000) and losses of £1,007,000 (2019: gains of £16,000) respectively.

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

	2020 £000	2019 £000
At start of year	25,589	24,570
Interest income	615	635
Actuarial (losses)/gains	(1,093)	651
Employer contributions	1,490	1,408
Benefits paid	(1,446)	(1,675)
At end of year	25,155	25,589

The Group expects to contribute £128,000 (2019: £128,000) per month to its defined benefit pension scheme in the year to 31 March 2020.

Notes to the consolidated financial statements

Year ended 31 March 2020

30. Retirement benefit obligations continued

History of experience of gains and losses:

	2020	2019	2018	2017	2015
Experience gains/(losses) on scheme assets (£000)	(1,093)	651	(488)	420	(427)
Percentage of scheme assets	(4.3%)	2.5%	(2.0%)	1.7%	(1.8%)
Experience losses/(gains) on scheme liabilities (£000)	(1,007)	16	200	347	397
Percentage of the present value of scheme liabilities	(2.2%)	0.0%	0.5%	0.8%	1.1%
Total amount recognised in the consolidated statement of comprehensive income (£000)	255	(3,702)	3,606	(7,412)	1,300
Percentage of the present value of scheme liabilities	0.6%	(8.1%)	8.6%	(16.2%)	3.5%

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 134.

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:

	2020 £000	2019 £000
Short-term employee benefits	2,089	2,095
Contributions into pension schemes	186	143
	2,275	2,238

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 (2019: £48,000). The amount due to Fabsec at 31 March 2020 was £117,000 (2019: £117,000).

During the year the Group has contracted with and purchased services from Construction Metal Forming Limited ('CMF') amounting to £11,003,000 (2019: £11,691,000). The amount due from and to CMF at 31 March 2020 was £1,275,000 (2019: £1,300,000) and £1,170,000 (2019: £1,060,000) respectively.

During the year the Group contracted with and purchased services from MET Structures Limited, amounting to sales of £1,894,000 (2019: £nil) and purchases of £484,000 (2019: £nil). MET Structures shares common directors with the Group. The amount due from and to MET Structures at 31 March 2020 was £363,000 (2019: £nil) and £281,000 (2019: £nil) 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 £416,000 (2019: £418,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 31 March 2020 was £379,000 (2019: £857,000). During the year the Group contracted with and purchased services from JSSL amounting to £198,000 (2019: £35,000). The amount due to JSSL at 31 March 2020 was £12,000 (2019: £18,000).

Five year summary

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Results					
Revenue	**327,364**	**274,917**	274,203	262,224	239,360
Underlying* operating profit (before JVs and associates)	**26,978**	**23,256**	22,866	19,614	13,686
Underlying* profit before tax	**28,621**	**24,711**	23,512	19,845	13,211
Non-underlying items before tax	**(2,808)**	**–**	(1,333)	(1,790)	(3,568)
Profit attributable to equity holders of Severfield plc	**20,415**	**20,162**	18,146	15,329	8,600
Assets employed					
Non-current assets	**203,783**	**163,033**	154,510	148,292	149,265
Net current assets	**21,068**	**33,135**	33,147	28,391	16,837
Non-current liabilities	**(41,176)**	**(21,161)**	(18,660)	(22,526)	(17,896)
Net assets	**183,675**	**175,007**	168,997	154,157	148,206
Key statistics					
Earnings per share:					
Basic — underlying*	**7.74p**	**6.65p**	6.38p	5.53p	3.67p
Basic	**6.68p**	**6.65p**	6.05p	5.13p	2.89p
Diluted — underlying*	**7.70p**	**6.58p**	6.29p	5.49p	3.65p
Diluted	**6.64p**	**6.58p**	5.97p	5.09p	2.87p
Dividends per share	**2.90p**	**2.80p**	2.60p	2.30p	1.50p
Dividend cover (times) — underlying* basis	**2.7**	**2.5**	2.6	2.4	2.4
Share price — high	**96.00p**	**88.20p**	88.00p	83.50p	73.25p
— low	**57.20p**	**64.60p**	59.50p	43.75p	52.75p

* The basis of stating results on an underlying basis is set out on page 7. Dividend cover for the current year excludes the special dividend for the year ended 31 March 2020.

Financial calendar

Preliminary announcement of full-year results	17 June 2020
Publication of annual report	July 2020
Annual general meeting	3 September 2020
Announcement of interim results (provisional)	24 November 2020

Company balance sheet

Year ended 31 March 2020

	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	2	**57,162**	57,696
Right-of-use asset		**63**	–
Investments	3	**128,808**	104,093
		186,033	161,789
Current assets			
Debtors — amounts falling due within one year	4	**73,358**	61,049
Cash at bank and in hand		**15,608**	905
		88,966	61,954
Current liabilities			
Trade and other payables	5	**(115,454)**	(95,705)
Financial liabilities – borrowings		**(19,375)**	–
Financial liabilities – leases		**(55)**	–
		(134,884)	(95,705)
Non-current liabilities			
Financial liabilities – borrowings		**(8,750)**	–
		(8,750)	–
Total assets less liabilities		**131,365**	128,038
Capital and reserves			
Share capital		**7,648**	7,600
Share premium		**87,292**	87,254
Other reserves		**2,418**	2,989
Profit and loss account		**34,007**	30,195
Equity and total shareholders' funds		**131,365**	128,038

The Company reported a profit for the financial year ended 31 March 2020 of £12,400,000 (2019: £20,642,000).

The financial statements were approved by the board of directors on 17 June 2020 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 2020

	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.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 April 2018	7,492	85,702	4,604	21,357	119,155
Total comprehensive income for the year	–	–	–	20,642	20,642
Ordinary shares issued*	108	1,552	–	–	1,660
Equity settled share-based payments	–	–	(1,615)	1,549	(66)
Dividends paid	–	–	–	(13,353)	(13,353)
At 31 March 2019	7,600	87,254	2,989	30,195	128,038

* The issue of shares represents the shares allotted to satisfy the 2015 Performance Share Plan award which vested in June 2018 and the 2015 Sharesave scheme.

Notes to the company financial statements

Year ended 31 March 2020

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').

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 134 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.

2. Tangible fixed assets

	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 and 31 March 2020	63,288	–	467	33	63,788
Accumulated depreciation					
At 1 April 2019	5,914	–	151	27	6,092
Charge for the year	486	–	47	1	534
At 31 March 2020	**6,400**	**–**	**198**	**28**	**6,626**
Carrying amount					
At 31 March 2020	**56,888**	**–**	**269**	**5**	**57,162**
At 31 March 2019	57,374	–	316	6	57,696

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 (2019: £600,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

Notes to the company financial statements

Year ended 31 March 2020

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 2020 is disclosed below. All of these had a reporting period ended 31 March 2020, 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
Watson Steel Structures Limited	England and Wales	Ordinary
Severfield (Products & Processing) Limited	England and Wales	Ordinary
Severfield Europe B.V.(ii)	Netherlands	Ordinary
Severfield Reeve Properties Limited	England and Wales	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
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 2018.
‡ 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

	2020 £000	2019 £000
Investment in subsidiaries	98,325	73,610
Investment in joint ventures	30,483	30,483
	128,808	104,093

3. Investments continued

Investment in subsidiaries

	£000
Cost	
At 1 April 2019	93,810
Additions	24,715
At 31 March 2020	**118,525**
Provision for impairment	
At 1 April 2019 and 31 March 2020	**(20,200)**
Net book value	
At 31 March 2020	**98,325**
At 31 March 2019	73,610

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 the 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 did not make any further investments in CMF Limited during the year (2019: £nil).

	£000
Cost	
At 1 April 2019	30,483
Additions	–
At 31 March 2020	30,483

Notes to the company financial statements

Year ended 31 March 2020

4. Debtors — amounts falling due within one year

	2020 £000	2019 £000
Other debtors	1,362	1,333
Amounts owed by subsidiary undertakings	62,987	56,536
Corporation tax recoverable	9,009	3,180
	73,358	61,049

5. Creditors — amounts falling due within one year

	2020 £000	2019 £000
Other creditors and accruals	11,490	7,020
Amounts owed to subsidiary undertakings	98,853	84,541
Deferred tax liability (note 6)	5,111	4,144
	115,454	95,705

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.

	2020 £000	2019 £000
Deferred tax liabilities	(5,285)	(4,716)
Deferred tax assets	174	572
	(5,111)	(4,144)

Deferred tax — movement for the year

	Excess capital allowances £000	Other temporary differences £000	Total £000
At 1 April 2018	(4,760)	986	(3,774)
Current year credit	44	(409)	(365)
Charge to equity	–	(5)	(5)
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)**

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 2020 these amounted to £nil (2019: £nil).

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

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
Unit 3
Mamhilad Technology Park
Old Abergavenny Road
Mamhilad
Monmouthshire, NP4 0JJ

Advisers

Auditor
KPMG LLP
Chartered Accountants
1 Sovereign Square
Leeds, LS1 4DA

Stockbrokers
Jefferies International Limited
Vintners Place
68 Upper Thames Street
London, EC4V 3BJ

Bankers
HSBC Bank plc
Maingate
Kingsway North
Team Valley Trading Estate
Gateshead, NE11 0BE

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London, EC2A 2HA

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions, Bridgwater Road
Bristol, BS99 7NP

Yorkshire Bank
(part of CYBG plc)
94 Albion Street
Leeds, LS1 6AG

Public Relations
Camarco
107 Cheapside
London
EC2V 6DN

Consultancy, design and production by:
jonesandpalmer.co.uk

Severfield

Severfield plc
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire, YO7 3JN
Tel: (01845) 577896
Fax: (01845) 577411

www.severfield.com