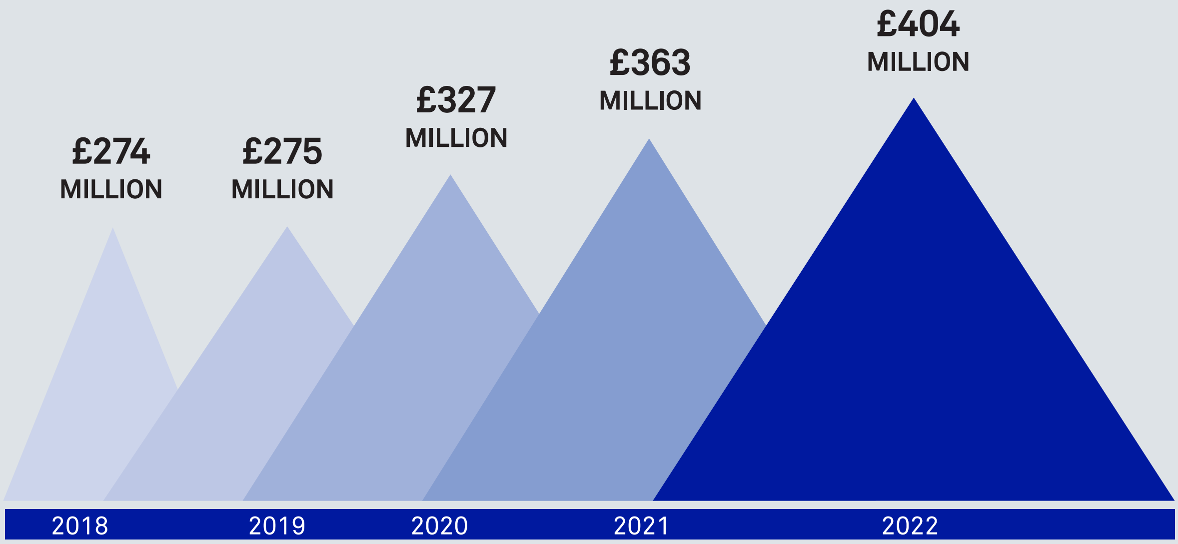
Severfield

OUR BALANCED AND RESILIENT BUSINESS

Severfield plc Annual report and accounts
for the year ended 26 March 2022

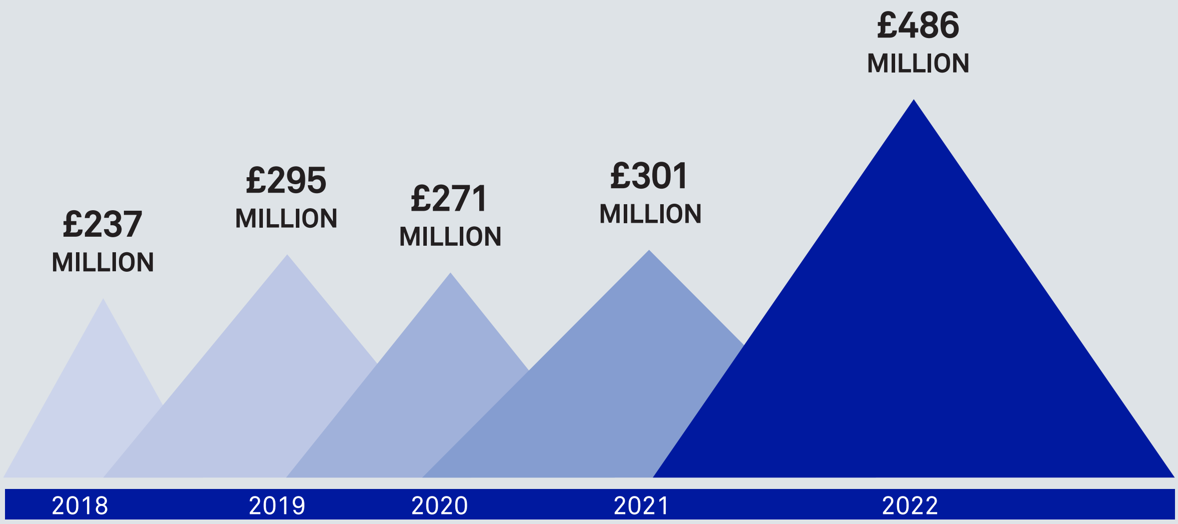
SUSTAINABLE GROWTH IN NUMBERS

Revenue



Read more about **our operating performance** on pages 42 to 49

UK and Europe order book



Read more about **our order book** on pages 12 and 13

Cover image: Chiswick footbridge
A true example of sustainable engineering in the form of a 120 metre long, 220 tonnes, three-span arched footbridge connecting Chiswick Park Business Campus with Chiswick Park station.

WELCOME TO OUR ANNUAL REPORT 2022

Severfield

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 innovation.

KEVIN WHITEMAN
NON-EXECUTIVE CHAIRMAN

"2022 has been another successful year for Severfield. Our achievement is attributable to the hard work of our employees, the resilience of our business model and the consistent execution of our well-established strategy allowing us to continue to make strong progress in our chosen markets."

ALAN DUNSMORE
CHIEF EXECUTIVE OFFICER

"The strategic and operational progress made over recent years ensures Severfield can continue to deliver increased revenues and profits, drive operating efficiencies and maintain a strong balance sheet, allowing us to make the right long-term decisions for the business."

You can find out more about the Group on our website **www.severfield.com**, which includes an investor information section containing a wide range of information of interest to institutional and private investors, including:

- Latest news and press releases
- Financial reports and investor presentations
- Company share price

Find us online @
www.severfield.com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A SNAPSHOT OF WHAT WE DO

AND HOW WE DO IT

OUR STRUCTURAL FRAMEWORK

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

See **our structural framework** on pages 4 to 5

WHERE WE DO IT

Commercial and Industrial
Dalton
Lostock
Sherburn
Enniskillen
Zevernbergen, Netherlands

Nuclear and Infrastructure
Bridlington
Bolton
Chepstow

Products and Processing
Sherburn
Monmouthshire

JSW Severfield Structures
Mumbai, India

Read about **the scale of our operations** on pages 16 to 17

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.

Read about **how we manage risk** on pages 86 to 98

HOW WE IMPACT ON SOCIETY

Resources and relationships

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

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

Read about **building a responsible and sustainable business** on pages 56 to 85

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 **our market sectors** on pages 28 to 29

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.

Read more about how **we create value** on pages 20 to 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 about **our governance** on pages **102** to **153**

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.

See **our KPIs** on pages 40 to 41

OUR STRUCTURAL FRAMEWORK

OUR STRONG FOUNDATIONS

Read more about **our strategy** on pages 30 to 36

How our strong foundations continue to deliver sustainable growth

Over the last year, we have once again demonstrated the Group's resilience, confirming our position as the UK's largest specialist structural steelwork group.

During the pandemic, we have been able to support our employees, our customers, and our other stakeholders through this challenging time, maintaining our focus on their health, safety and wellbeing together with protecting the financial strength of the Group. The strength and quality of our record UK and Europe order book and breadth of our experience across a wide and diverse range of market sectors leave us well positioned to continue to build on this success.

OUR PURPOSE

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

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

OUR STRATEGY

revolves around five main elements to enable us to deliver sustainable long-term value creation. This is aided by our business improvement programme.

Growth | Clients | India | Operational excellence | People

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.

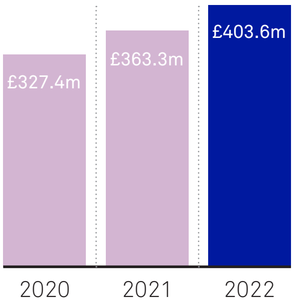
Commitment

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.

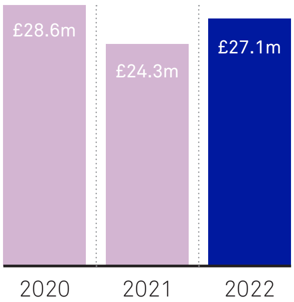
OUR YEAR IN REVIEW

FINANCIAL HIGHLIGHTS

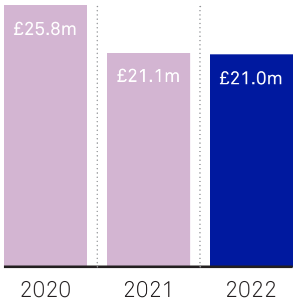
Revenue
£403.6m



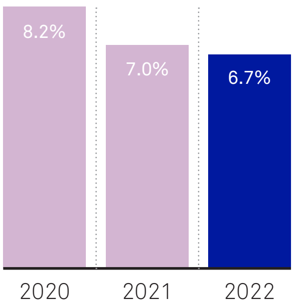
Underlying* profit before tax
£27.1m



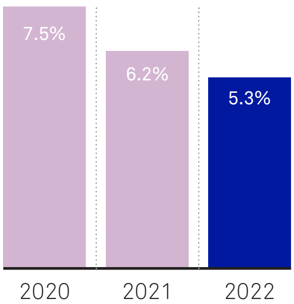
Profit before tax
£21.0m



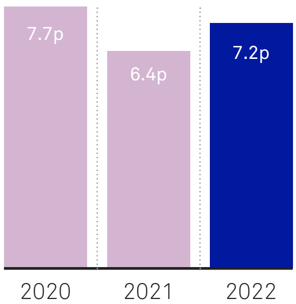
Underlying* operating margin
6.7%



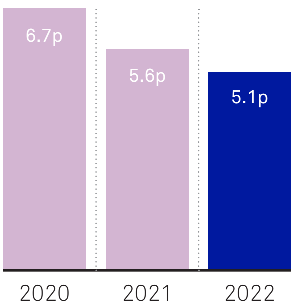
Operating margin
5.3%



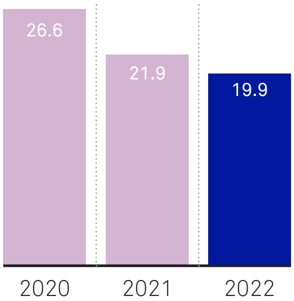
Underlying* basic earnings per share
7.2p



Basic earnings per share
5.1p



Greenhouse gas intensity**
19.9 CO_2/£m



* Underlying results are stated before non-underlying items of £6.1m (2021: £3.2m), including the amortisation of acquired intangible assets of £5.2m (2021: £2.8m), and net acquisition-related expenses of £0.7m (2021: £0.4m). See note 32 for APM definitions.

** Scope 1 and scope 2 emissions, using a market-based approach.

OPERATIONAL HIGHLIGHTS

Record order book, good earnings visibility through 2023, inflationary pressures being well managed.

- Revenue up 11% to £403.6m (2021: £363.3m)
- Underlying[1] profit before tax up 11% to £27.1m (2021: £24.3m), demonstrates resilience of the Group in challenging market conditions
- Underlying[1] basic earnings per share up 12% at 7.2p (2021: 6.4p)
- Total dividend increased by 7% to 3.1p per share (2021: 2.9p per share), includes proposed final dividend of 1.9p per share (2021: 1.8p per share)
- Year-end net debt (on a pre-IFRS-16 basis[1]) of £18.4m (2021: net funds of £4.4m), reflects higher steel purchases to meet production needs in 2023 and the impact of steel price rises
- Record UK and Europe order book of £486m at 1 June 2022 (1 November 2021: £393m), includes new industrial and distribution, film studio, commercial office and bridge orders and the new stadium for Everton F.C.
- Share of profit from Indian joint venture ('JSSL') of £0.8m (2021: loss of £0.7m), reflecting revenue growth and margin improvement following the disruptive impact of COVID-19 in 2021
- India order book of £158m at 1 June 2022 (1 November 2021: £140m), reflects strong underlying demand for structural steel in India
- Successful completion of new £50m revolving credit facility maturing in December 2026
- New simplified divisional structure implemented for UK and Europe operations from 1 April 2022 – creating three new divisions aligned with our chosen market sectors

ESG

- Certified by the Carbon Trust as carbon neutral, CDP 'A-' rating for leadership on climate change
- Top UK construction business in the 2022 Financial Times listing of Europe's climate leaders
- Net zero carbon target established for 2040

1 See note 32 for APM definitions

CHAIRMAN'S VIEW

2022 HAS BEEN ANOTHER YEAR OF STRONG PROGRESS FOR THE GROUP AGAINST ITS STRATEGIC AND FINANCIAL OBJECTIVES

KEVIN WHITEMAN
NON-EXECUTIVE CHAIRMAN

Our chairman's view

2022 was another successful year for Severfield, attributable to the hard work of our employees, the consistent execution of our well-established strategy, the resilience and flexibility of the Group's business model and our ongoing business improvement programmes.

Despite unprecedented inflationary and supply chain pressures which have been evident throughout most of the year, we have increased our revenue by 11 per cent to £403.6m and our underlying profit before tax by 11 per cent to £27.1m[1]. The increase in profit reflects our ability to offset inflationary cost increases through a combination of operating efficiencies, higher selling prices, contractual protection and by forward purchasing, leveraging our scale and supply chain strengths.

The strength of our business model is evidenced by our healthy balance sheet and the continuation of our progressive dividend policy, with the board recommending a final dividend of 1.9p per share (which represents a total dividend of 3.1p per share), recognising the importance of dividends to our shareholders.

New divisional structure

The Group has grown significantly over recent years, both organically and through acquisition. In response to this, and with effect from 1 April 2022, we have created a simpler divisional structure for our UK and Europe operations designed to align our existing businesses more closely with our customers and the ten market sectors that we serve. This has led to the creation of three market-focused divisions namely, the Commercial and Industrial division, the Nuclear and Infrastructure division and the Products and Processing division. This new structure will also allow us to adopt a more co-ordinated approach to manufacturing across the Group, as we continue to invest in and optimise our factories.

The market dynamics of these three new divisions are different, in terms of the solutions that customers seek, project characteristics, the competitive landscape and their economic cycles. By creating a Group structure with three divisions focused on our chosen markets, we will not only optimise the operations of each division to the market dynamics they face but provide ourselves with a better platform to fulfil our strategic growth aspirations.

Board composition

At the start of the year, Rosie Toogood joined our board as a non-executive director. Rosie's wealth of manufacturing and engineering experience within the modular homes, aerospace and nuclear sectors has proved a real asset to our board discussions as we continue our operational and strategic evolution. As designated non-executive director responsible for workforce engagement, Louise Hardy has been at the heart of our new 'My Voice' forums, which were launched in 2022, providing a formal way for colleagues and management to connect, gain feedback and exchange information and views on any business-related topic. These meetings have provided valuable, ongoing insights and feedback for the board during a challenging year for everyone, and we look forward to continuing this work with our colleagues in the year ahead.

Markets and strategy

Our business model and strategy remain unchanged. Despite some challenging market conditions, our clients have continued to regularly place orders and we have secured a significant value of new work over the past 12 months. This has resulted in a UK and Europe order book at 1 June 2022 of £486m, leaving us well-positioned with a strong future workload for the 2023 financial year and beyond. Although we remain mindful of the ongoing effects of Russia's invasion of Ukraine, with the most significant effects of COVID-19 now behind us, we remain encouraged by the current level of tendering and pipeline activity across the Group, both in the UK and in continental Europe.

As a key component of economic growth, the construction industry will be central to a sustainable economic recovery. With the release of the UK government's five-year plan in November 2020, infrastructure investment will play a significant role in

[1] See note 32 for APM definitions.

this recovery, given its multiplier effect on jobs and spending. This plan announced funding of £650 billion for developments in roads, railways (including HS2), nuclear power and other UK infrastructure projects. Many of these projects contain a significant steelwork content, which the Group is well-positioned to benefit from given our historical track record in the transport infrastructure sector and in-house bridge and nuclear capabilities, together with the in-depth rail expertise acquired with DAM Structures.

India

The Indian joint venture ('JSSL') has returned to profitability in 2022, following a difficult start to the year when output was disrupted by the second wave of COVID-19. Despite ongoing inflationary pressures, JSSL has continued to win new work, resulting in a strong order book of £158m at 1 June 2022. This order book, together with JSSL's improving pipeline of potential orders, reflects a continuing strong underlying demand for structural steel in India, leaving the business very well-positioned to take advantage of an improving economy. We remain very positive about the long-term development of the Indian market and the value creation potential of JSSL.

Health and safety

The health, safety and wellbeing of our employees is of utmost importance, and the rigour that is deployed in this area is reflected in our continued overall improving performance. Despite wider industry trends moving in the opposite direction as working practices return to normal post-pandemic, our injury frequency rate ('IFR') and accident frequency rate ('AFR') both reduced by over 10 per cent compared with 2021. Both IFR and AFR continue to outperform the industry averages. We are very proud of this industry-leading performance and improving track record.

Sustainability

Although the macroeconomic environment is somewhat uncertain, there is one enduring long term certainty and that is the need to take action against climate change. Over the last year, we have continued to make good progress in this area, better understanding the carbon emissions relating to our activities and positioning the business for success in a net zero future.

In the 2022 financial year, the Group continued to make good progress in reducing energy and fuel consumption and emissions and we remain well on course to achieve our target of reducing our scope 1 and 2 greenhouse gas ('GHG') emissions by 25 per cent by 2025 against a 2018 baseline. During the year, we have improved our rating in the Carbon Disclosure Project ('CDP') index to 'A-' from our prior year score of 'B', and have maintained our 'A' rating in the CDP Supplier Engagement Rating. We have also achieved our target to be accredited as carbon neutral for our manufacturing and construction operations by the Carbon Trust, which is an important milestone in our journey towards net zero. We are delighted that our ESG progress has also been recognised by the Group's inclusion, for the second year running, in the Financial Times listing of Europe's climate leaders which showcases corporate progress in fighting climate change.

Summary and outlook

Despite considerable external challenges, 2022 was another year of strong progress by Severfield against its strategic and financial objectives and goals. As we look to the future, I am excited by the opportunities that lie ahead for the Group. There is a strong pipeline of significant, profitable projects in all our geographies, in addition to those already in our high-quality order books.

Whilst we remain mindful of the macro-economic backdrop, particularly regarding the current inflationary pressures, we continue to expect to deliver further progress in 2023 and I look forward to the year ahead with optimism.

Kevin Whiteman
Non-executive chairman

15 June 2022

Read more about **our operating performance** on pages 42 to 49

Read more about **our board of directors** on pages 104 to 105

Read more about **our financial performance** on 50 to 53

Read more about **our strategy** on pages 30 to 37

Read more about **building a responsible and sustainable business** on pages 56 to 85

OUR COMPELLING INVESTMENT CASE

We are continuing to drive sustainable growth to create long-term value for all stakeholders.

01

A balanced and resilient business – provided by ten market sectors and geographical and client diversity.

02

Aligned to sectors with strong growth potential, including infrastructure.

03

A record order book and strong pipeline – good earnings visibility into 2024.

04

Emerging market credentials – significant opportunity to grow profits in India.

05

Strong cash generation and progressive dividend policy – Severfield typically converts c.90 per cent of profits into cash.

Key stakeholders

Clients

Shareholders

Suppliers and subcontractors

06

A well invested business – over £60m capital expenditure over last seven years.

07

High return on capital employed – with through cycle target of 10 per cent, achieving an average of over 15 per cent over the last five years.

08

Continued good momentum with our operational improvement initiatives – with much more to come.

09

Quality of earnings demonstrated by successful navigation of Brexit, COVID-19 pandemic and current inflationary pressures.

10

Strong Environmental, Social and Governance ('ESG') credentials – initiatives to speed up transition to net zero steel industry and included in Financial Times' listing of Europe's climate change leaders for two years running.

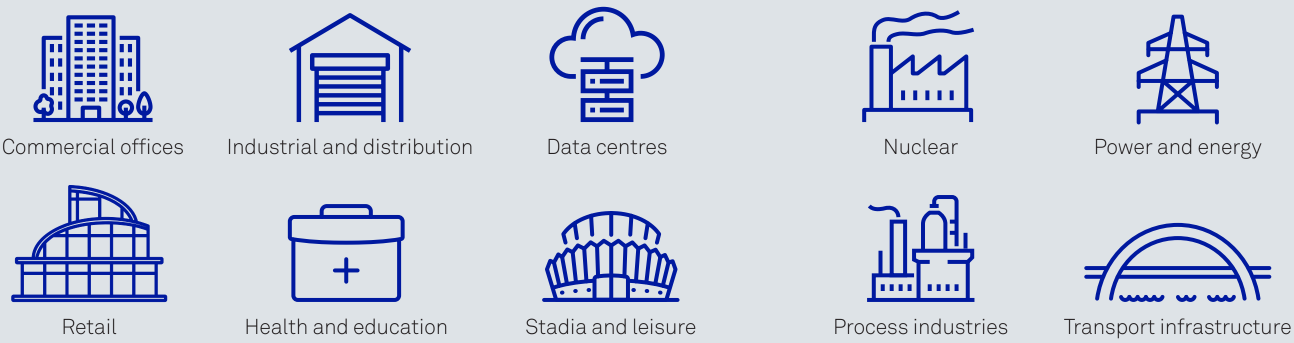
OUR DIVERSIFIED PORTFOLIO

As the UK's market-leading structural steel company, we 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. In other words, we have a balanced portfolio with market sector, geographical and client diversification.

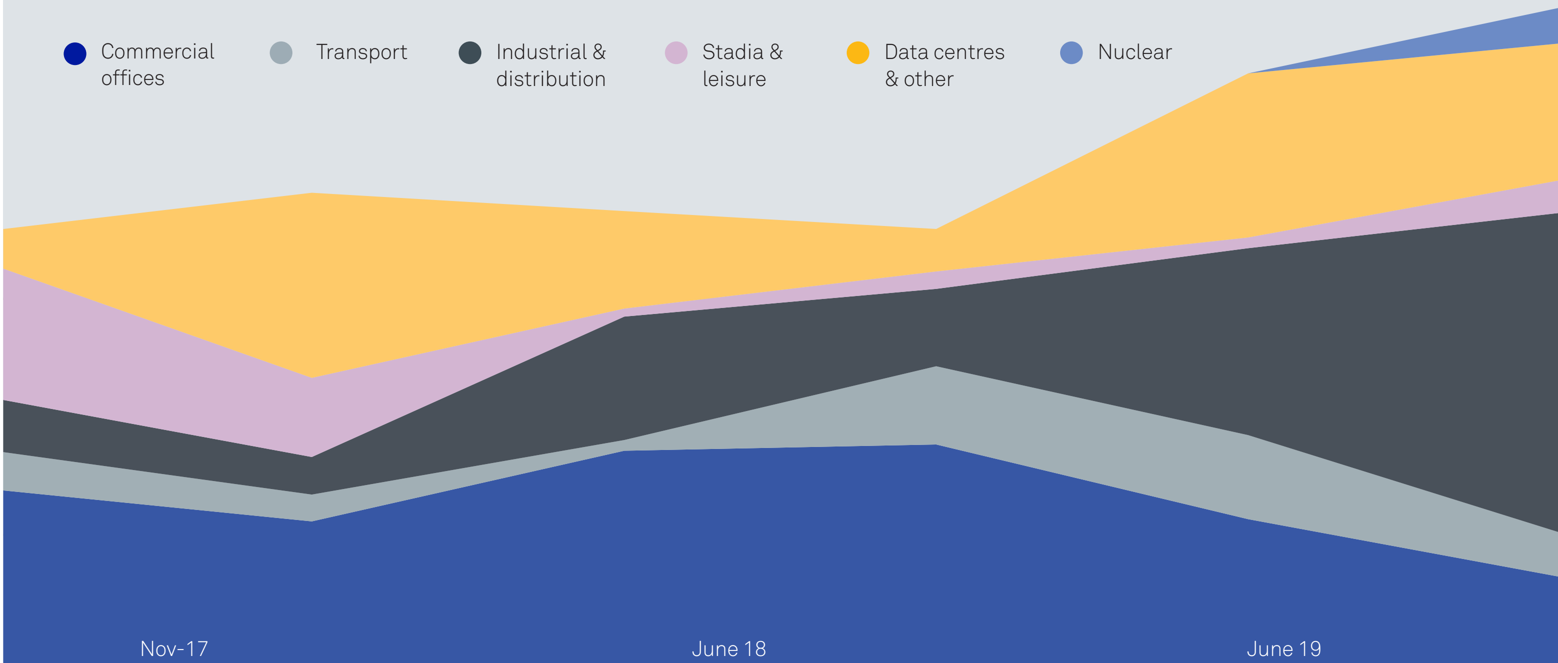
Market sectors

Commercial and Industrial | **Nuclear and Infrastructure**



Order book balance

The Group's growth strategy has delivered a record UK and Europe order book with a broad diversity of sectors, geographies and clients, providing us with good earnings visibility through 2023 and beyond.

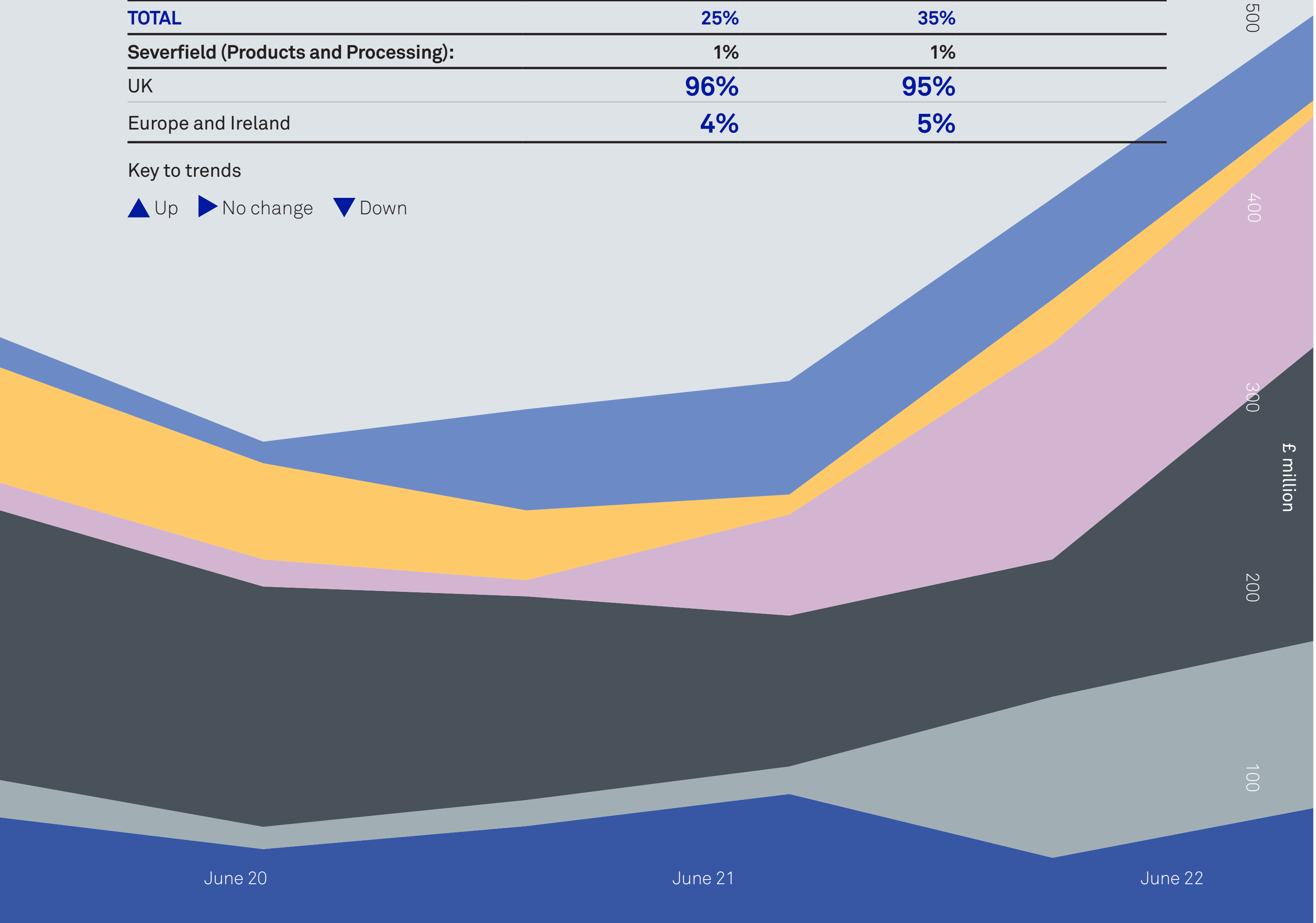


Diversified UK and Europe order book

Division/Sector	June 2022 **£486m**	Nov 2021 **£393m**	Future trend for Severfield
Commercial and industrial:			
Industrial and distribution	31%	18%	▶
Stadia and leisure	24%	28%	▼
Commercial offices	18%	16%	▲
Data centres and other	1%	2%	▲
Health and education	–	–	▲
Retail	–	–	▲
TOTAL	**74%**	**64%**	
Nuclear and infrastructure:			
Transport infrastructure	17%	20%	▶
Nuclear	8%	12%	▲
Power and energy	–	3%	▲
Process industries	–	–	▲
TOTAL	**25%**	**35%**	
Severfield (Products and Processing):	**1%**	**1%**	
UK	**96%**	**95%**	
Europe and Ireland	**4%**	**5%**	

Key to trends

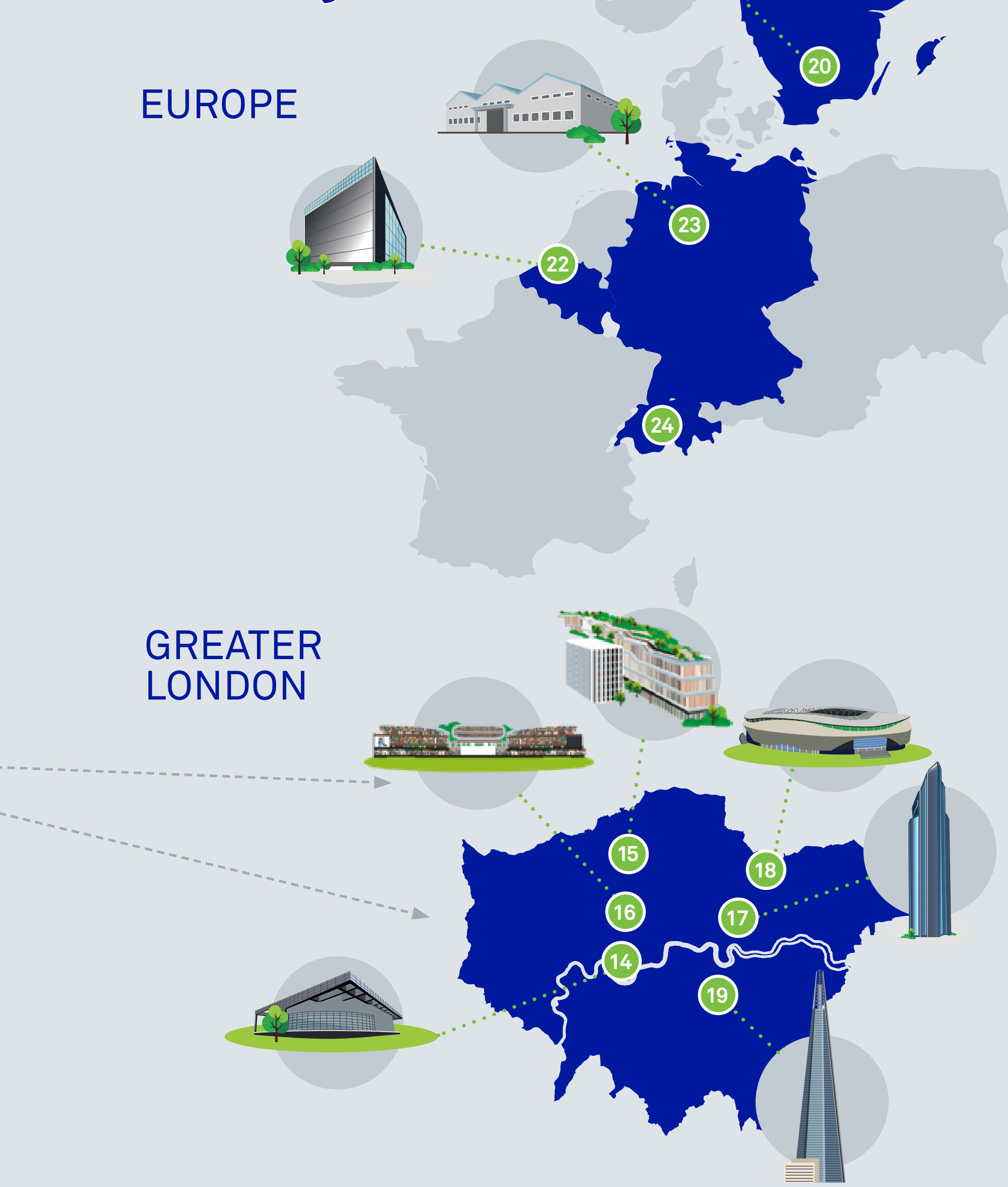
▲ Up ▶ No change ▼ Down



OUR PROJECTS

Projects

1. **V&A Museum, Dundee**
Health and education
2. **Argyle Street, Glasgow**
Commercial offices
3. **Large warehouse, Wakefield**
Industrial and distribution
4. **Co-op Live, Manchester**
Stadia and leisure
5. **Manchester Engineering Campus Development, Manchester**
Health and education
6. **Peterborough Waste to Energy plant**
Power and energy
7. **BBC, Cardiff**
Commercial offices
8. **SAS13 Water Orton Development, Birmingham**
Transport
9. **Gulfstream Farnborough, Hampshire**
Transport
10. **Titanic, Belfast**
Stadia and leisure
11. **Large data centre, Dublin**
Data centres and other
12. **Covanta, Dublin**
Power and energy
13. **Wilton Park, Dublin**
Commercial offices
14. **Fulham FC**
Stadia and leisure
15. **Google Headquarters, King's Cross**
Commercial offices
16. **30 Grosvenor Square, London**
Commercial offices
17. **Ocado, Luton**
Stadia and leisure
18. **Sky Studios, Hertfordshire**
Stadia and leisure
19. **The Shard**
Commercial offices
20. **ESS Target, Lund, Sweden**
Data centres and other
21. **Large data centre, Finland**
Data centres and other
22. **Large data centre, Belgium**
Data centres and other
23. **Large warehouse, Germany**
Industrial and distribution
24. **Lonza, Switzerland**
Industrial and distribution
25. **Phoenix H10, Hyderabad**
Commercial offices
26. **Phoenix Centaurus, Hyderabad**
Commercial offices
27. **JSW Blast Furnace, Bellary**
Industrial and distribution
28. **Colt Data Centre, Mumbai**
Data centres and other



Our offices and sites

Commercial & Industrial

Our sites at the following locations fabricate products for our Commercial & Industrial division serving the following main market sectors: industrial and distribution, commercial offices, stadia and leisure, data centres, retail and health and education. Our Severfield plc head office team is also based in Dalton.

Dalton
Lostock
Sherburn
Enniskillen
Zevenbergen, Netherlands

Nuclear & Infrastructure

Our offices and fabrication facilities in Bridlington, Bolton and Chepstow serve the nuclear, power and energy, transport (road and rail) and process industries sectors.

Bridlington
Bolton
Chepstow

Products & Processing

Sherburn

Located in Sherburn, near Scarborough, is the production facility for Severfield (Products & Processing), producing a market-leading suite of modular products including 'Severstor' units and 'Rotoflo' technology.

Monmouthshire

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

JSW Severfield Structures

Mumbai, India

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

- A Dalton
- B Sherburn
- C Enniskillen
- D Bridlington
- E Bolton
- F Monmouthshire, South Wales
- G Bellary, India

THE SCALE OF OUR OPERATIONS

Following the Group's reorganisation in April 2022, to a simpler market-focused divisional structure for our UK and Europe operations, our three new divisions align our existing businesses more closely with the ten market sectors that we serve and our customer base. Across our divisions we provide unrivalled capacity, capability and technical expertise to the industry. Our joint venture operations in India and Wales are fundamental in helping the Group achieve our strategic growth objectives.

Commercial & Industrial

Our Commercial & Industrial division designs, fabricates and constructs structural steelwork for a variety of different sections including commercial offices, stadia & leisure, industrial & distribution, data centres, retail and health and education.

The division has manufacturing sites in three locations: Dalton, Lostock and Enniskillen. Each has full-service capabilities and modern manufacturing processes enabling us to provide a high quality product to a variety of different sectors.

Each of our sites has its own strong reputation in the market and between them cover a wider geographical area, including Europe.

Dalton
c.560 employees

Sherburn
c.100 employees

Lostock
c.150 employees

Enniskillen, Northern Ireland
c.320 employees

Zevenbergen, Netherlands
c.10 employees

Nuclear & Infrastructure

Across three locations, our Nuclear & Infrastructure division has extensive experience in the specialist, highly regulated nuclear, transport (road and rail), process industries and power and energy sectors. Providing award winning design teams, utilising state-of-the-art design software and Tekla detailing facilities to offer customers value engineering.

This gives a mix of proven success along with modern, innovative design and fabrication ideas to be able to provide a quality, specialised service to a growing market.

Bridlington
c.70 employees

Bolton
c.80 employees

Chepstow
c.100 employees

Products & Processing

Severfield (Products & Processing) offers a market-leading suite of products, including an expanding range of modular products to cater to diverse needs, including 'Severstor' units (robust, steel-framed modules that house critical systems equipment such as electrical switchgear) and 'Rotoflo' technology (a well-established high-efficient and controlled discharge system representing a major advance in materials handling technology).

From its facility in Sherburn, it also provides a one-stop shop for steel products and processing service using our extensive range of equipment and allows us to address smaller scale projects.

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

Sherburn
c.100 employees

Monmouthshire
c.60 employees

JSW Severfield Structures Limited (India)

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

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

The facility has been designed to optimise product range, quality and productivity, and incorporates cutting-edge technology and processing equipment. The recent expansion of the Bellary facility has increased capacity from c.60,000 tonnes to c.100,000 tonnes.

STRATEGIC REPORT

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HOW WE DELIVER SUSTAINABLE VALUE

Severfield is the UK's market-leading structural steel company, respected for delivering world-class engineering and design excellence.

We have unrivalled experience and capability in the design, fabrication and construction of steel structures. The breadth of technical expertise in our workforce ensures that we can serve our diverse range of market sectors, positioning us well for future growth.

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. 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.

The Group is equipped with the latest state-of-the-art manufacturing and painting processes and has a highly skilled workforce of around 1,600 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.

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.

Focus on sustainability

As a market leader in structural steel, we recognise that operating in a sustainable manner is crucial to both the current and future success of the Group. The Group is committed to behaving responsibly and conducting business with openness, honesty, and integrity - motivating and enabling our people and our supply chain to deliver high quality, innovative buildings in a sustainable and efficient way. This enables us to continually invest in our business in order to preserve our ability to generate value in the short, medium and long term.

OUR VALUE PROPOSITION

Our customers

Clients serviced by the Group cover a broad range of disciplines from contractors and developers, to engineers and architects. We are focused on and are committed to delivering outstanding 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. 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.

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.

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.

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.

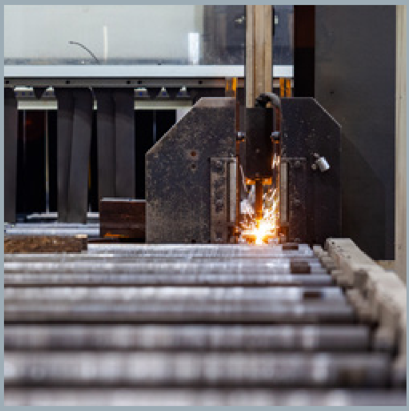
The FABSEC® production line at Dalton is a fully self-contained production facility. The process provides the structural steelwork sector with a full range of highly efficient plated sections, optimal section profiles and shop-applied intumescent coatings.

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. 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.

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 meet 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.

Our sustainability framework is embedded into our purpose and corporate strategy to help us achieve our vision. Carbon reduction is an important strategic objective for the Group and we are committed to protect and enhance the environment, and to limit the environmental impact of our operations on the planet so it can support the needs of the present and future generations.

A commitment to our own Group charity, the Severfield Foundation, which supports both national and local charities, to help us give back to society.

Underlying[1] basic earnings per share

7.2p

(2021: 6.4p)

Total dividend per share

3.1p

(2021: 2.9p)

£403.6m

Revenue from orders in 2022

(2021: £363.3m)

£86.0m

paid in employee benefits in 2022

(2021: £75.6m)

18%

reduction in carbon emissions since 2018 baseline

[1] See note 32 for APM definitions.

A58 DISTRIBUTION LOGISTICS CENTRE, ROOSENDAAL

Industrial distribution

Location:
Roosendaal, Netherlands

Client:
Logistics Capital Partners

Main contractor:
BVR Bouw BV

Engineer:
Jecon Engineering

Architect:
Palazzo BV

Tonnage:
1,700 tonnes

Completion date:
September 2021

The project

This project in mainland Europe highlights the Group's presence and expertise on the continent through Netherlands-based Severfield Europe BV.

The A58 distribution logistics centre is located strategically between the large ports of Rotterdam and Antwerp on the intersection of two major Dutch motorways. The overall project will create a logistics hub that provides easy access to mainland Europe.

The Group has delivered two buildings in this development, including installation of hollow core slabs for a mezzanine floor, all in accordance with BREEAM's 'very good' sustainability guidelines.

Severfield were responsible for the connection design, fabrication, delivery and installation of c. 1,700 tonnes of main and secondary steel, including installation of hollow core slabs provided by the client for a mezzanine floor.

The overall specification provided a particular challenge for the design team, with a lean section design requiring special attention to be paid to the connection design.

Fabrication was then divided between the Group's UK production facilities and certain approved European subcontractors. As with all large international projects delivered by the Group, this required a high level of planning and close organisation of an international supply chain and workforce.

Despite the inevitable logistical challenges that arise on such an undertaking, the project was delivered and installed in accordance with the original timeframe.

THE MARKETS WE SERVE
THE UK AND EUROPE

Well-placed to win work in the diverse range of market sectors and geographies in which we operate.

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

Market output for structural steelwork in the UK

£803,000 tonnes*

(2021: 683,000 tonnes)

Group production

95,000 tonnes

(2021: 90,000 tonnes)

Group potential capacity

165,000 tonnes

(2021: 165,000 tonnes)

UK and Europe order book

£486m at 1 June 2022

(£393m at 1 November 2021)

*As measured by the British Constructional Steelwork Association ('BCSA').

Favourable market trends

Steel continues to be overwhelmingly the structural framing material of choice. The total UK consumption of constructional steel in the 2021 calendar year was 803,000 tonnes, an increase of 17 per cent on 2020, but it has yet to recover fully to the pre-pandemic level of 2019. In the 2020 calendar year, UK consumption fell to 683,000 tonnes as a direct result of the COVID-19 pandemic. Overall, the total UK consumption of structural steelwork is expected to grow to 913,000 tonnes by 2024, with industrial sheds making the most significant contribution to that growth.

In 2021 the consumption of structural steelwork in industrial buildings increased by 16.4 per cent to 384,000 tonnes, with further growth of 14.5 per cent forecast in 2022 and 2.3 per cent in 2023 before levelling out in 2024. The consumption figure for offices rose by 10 per cent to 91,000 tonnes in 2021, again with further growth of 12.6 per cent forecast in 2022 before levelling out in 2023 and 2024.

As the world's population grows, there is an increased need to invest in new and greater infrastructure to support the population and economic growth. The long-term trends in the UK and European construction market remain positive with strong underlying market drivers, providing the Group with significant opportunities for growth.

Sustainable steel for the future

All construction materials have some environmental impact and when assessing sustainability, it is important to measure all of steel's impacts, including the atmosphere, the environment, means of disposal, and durability. Steel manufacturing continues to improve its energy use and levels of greenhouse gas emissions and steel products exhibit a decisive life cycle advantage versus many other construction materials (including concrete) since they can continually be recycled. Steel structures can last for many years, making them cost-effective as well as sustainable and since steel is often fabricated off-site, it can reduce on-site labour, cycle time and construction waste.

Performance in 2022

The Group's potential production capability is approximately 165,000 tonnes. In 2022, Group revenue of £403.6m represented an 11 per cent increase, reinforcing our market-leading position and the continued delivery of our strategic objectives. This strong performance has been achieved despite some challenging market conditions in 2022 and mainly reflects an increase in steel prices and the full year revenue effect of DAM Structures which was acquired in February 2021.

In 2022, we further increased our market share in certain sectors, including transport infrastructure, stadia and leisure, and nuclear and maintained our strong market positions in the industrial and distribution and commercial office sectors. The continued successful implementation of our strategy means that the Group has significant market sector, geographical and client diversification. As a result, our capabilities are aligned with many market sectors with strong growth potential. The Group is well positioned to meet the demand for ongoing investment in the UK's infrastructure, whilst our diverse construction activities remain focused on key areas such as industrial and distribution, data centres, stadia and leisure, nuclear and commercial offices.

Outlook

We remain encouraged by the current level of tendering and pipeline activity across the Group, both in the UK and in continental Europe, in which we retain a good market position and which remains an important part of our strategic growth plans. We are well-positioned to take advantage of some significant opportunities in the industrial and distribution (battery plants and distribution centres), transport infrastructure, nuclear and data centre sectors, and, despite predictions of the demise of the office following the pandemic, in the commercial office market, including in London. As a diverse, innovative Group, with expertise in managing complex projects and offering a wide range of structural steel solutions across a wide range of sectors, we are well placed to capitalise on these positive opportunities and provide a sustainable solution as the UK government progress their agenda to 'build back better'.

As a key component of economic growth, the construction industry will be central to a sustainable economic recovery. New, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating sustainable growth. In November 2020, the UK Government released details of its five-year plan, the National Infrastructure Strategy ('NIS'), to invest in digital, transport and energy to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050.

This plan announced funding of £650 billion, an increase of around £100 billion from the previous plan, for developments in roads, railways, power networks and other UK infrastructure projects. At Network Rail, in addition to HS2, the CP6 (control period) budget of around £53 billion (2019–2024), which includes a significant amount of rail electrification work, is substantially higher than the previous CP5 budget of £38 billion (2014-2019). At Highways England, the second Road Investment Strategy ('RIS2') budget of £24 billion (2020-2025) is a significant increase over the expenditure of £15 billion during 'RIS1' (2015-2020). We have already secured some significant road bridge awards and orders for HS2 from a variety of consortia, together with some ancillary steelwork packages at Hinkley Point, and we continue to make good progress with several other similar opportunities, including rail electrification work. We remain well-positioned to win work in the transport sector given the Group's historical track record and our in-house bridge capability, together with the in-depth expertise of DAM Structures.

Looking further ahead, in April 2022, prompted by Russia's invasion of Ukraine, the UK government published its Energy Security Strategy, pledging a new generation of nuclear power (under the banner of 'Great British Nuclear') as well as offshore wind generation, together with several other new energy supply initiatives, to reduce reliance on foreign energy supply. The combination of the in-house nuclear expertise acquired with Severfield (Nuclear & Infrastructure) (formerly Harry Peers), and the Group's unmatched scale and capability to deliver major infrastructure projects, leaves us well positioned to win work from such projects, many of which are likely to have a significant steelwork content.

Order book

The UK and Europe order book at 1 June includes a significant amount of new work which we have secured over the past 12 months and now stands at a record level of £486m, of which £397m is planned for delivery over the next 12 months. The growth in the order book has been driven by several significant project awards, including the new stadium for Everton F.C., the battery plant for British Volt in Blyth and some notable film studio projects. This leaves the Group well positioned with a strong future workload for the 2023 financial year and beyond.

In terms of geographical spread, 96 per cent of the order book represents projects in the UK, with the remaining 4 per cent representing projects for delivery in Europe and the Republic of Ireland. This more UK-centric nature is driven by a lower proportion of work in the Republic of Ireland, as several large projects draw to completion. This, together with fewer ongoing projects in continental Europe, reflects a pipeline which was adversely impacted by COVID-19 12 months ago, but which has since recovered strongly over recent months. Furthermore, only 16 per cent of this represents commercial offices, compared to a peak of c.60 per cent around five years ago. Overall, the order book remains well balanced, showcasing the benefits of our strategic diversification over recent years.

THE MARKETS WE SERVE

INDIA

A record order book, encouraging pipeline of potential orders and strong and growing client relationships leave JSSL well positioned to take advantage of a growing economy.

A strong India order book of

£158m

at 1 June 2022

(£140m at 1 November 2021)

Group after-tax share of profit of

£0.8m

(2021: share of loss of £0.7m)

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 an expanding metal decking business, JSWSMD Limited.

2022 performance

In 2022, the Indian joint venture ('JSSL') has recovered strongly and has returned to profitability, following the loss recorded in the previous year which was severely impacted by COVID-19. The profitable performance in 2022 was achieved despite a difficult start to the year when output was disrupted by the second wave of COVID-19. This resulted in COVID cases rising to over 300,000 from the height of the first wave at 92,000, supply chain issues and many varying restrictions put in place across the country. This recovery is evident in the Group's after-tax share of profit of £0.8m (2021: share of loss of £0.7m). The improved performance reflects a more than doubling of revenue to £100.3m, compared with £48.0m in the previous year, and an increase in the operating margin to 5.2 per cent, compared with 3.3 per cent in the previous year. Financing expenses of £3.3m (2021: £3.4m) are broadly unchanged from the previous year and turn JSSL's operating profit of £5.2m (2021: £1.6m) into a profit before tax of £1.9m (2021: loss before tax of £1.8m).

Total output for 2022 was a much improved 58,000 compared to 35,000 tonnes in the previous year, reflecting the impact of COVID-19 on 2021 operations at Bellary. Despite the disruption earlier in the year, JSSL's health and safety record remained excellent with no lost time incidents ('LTI') recorded in the year. JSSL's factory operations have not recorded an LTI since 2014 and only one LTI has been recorded by its construction activities over the same eight-year period. The safety performance of the business has been recognised in previous years, resulting in many certificates and awards from clients and health and safety organisations in India.

Market developments

JSSL is emerging from the pandemic in a strong position to take advantage of an accelerating switch from concrete to steel. The use of fabricated steel in construction in India is c.10% of the market, compared with >70% in the UK and 50% to 60% in the USA and Japan. In addition, over the coming years, factory-made structural steel is expected to take market share from site-fabricated steel.

The construction sector in India is forecast to grow due to increased demand from real estate, infrastructure projects, retail, commercial and the hospitality sectors. Market forecasts are for structural steel in construction to increase threefold from 2020 to 2030. This outlook is helped by large infrastructure projects, similar to the UK. In 2019, the Indian government launched the National Infrastructure Pipeline ('NIP') with a view to invest US$1.5 trillion in infrastructure by 2025. This underpins the wider outlook of the construction industry in India. The Indian population is also growing, and as the economy is expected to grow this should help create structural tailwinds.

There have also been a variety of reforms to accelerate the rate of construction. The Real Estate (Regulation and Development) Act, which came into force in 2017, aimed to increase transparency, accounting and efficiency. There have been a variety of other changes in legislation and policy, including RERA, GST, the National Disaster Management Act and Ease of Doing Business initiative. By 2030, the Indian real estate industry is expected to touch US$1 trillion, becoming the third largest globally.

According to a report by Savills (May 2021), there is currently c.7.5m square feet of data centres in India with the market expected to grow in the coming years. Estimated capacity currently under construction is more than 8m square feet, expected to finish between the end of 2021 and end of 2025. There is a further 10m square feet proposed for development and this should create additional opportunities for JSSL to win work.

Despite recent challenges, JSSL's clients have continued to place orders, resulting in an order book which has increased to £158m (1 November 2021: £140m). In terms of mix, 37 per cent of the order book represents higher margin commercial work, with the remaining 63 per cent representing industrial projects (1 November 2021: commercial work of 62 per cent, industrial work of 38 per cent). The current higher level of industrial work is consistent with the ongoing fluctuations in the timing and mix of industrial and commercial work in a growing order book.

JSSL's pipeline of potential orders continues to include several commercial projects for key developers and clients with whom it has established strong relationships. JSSL is also developing strategic alliances with certain key clients, mainly for commercial, data centre, healthcare and infrastructure projects. This, together with the step up in the order book, leaves the business very well positioned to take advantage of an improving economy and we expect the business to recover to pre-pandemic levels of output in 2023 of around 100,000 tonnes.

JSSL

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

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

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

Current and future operations

JSSL's operations are based on a 65-acre site in Bellary, Karnataka and has an annual capacity of 100,000 tonnes serving a wide range of sectors across the growing Indian market. 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. The state-of-the-art fabrication facility is built on the same principles as Dalton, taking the learnings from that site. Derek Randall, who is the MD at JSSL, is highly regarded.

The key characteristics of the plant are as follows:

- The original configuration was two fabrication lines. Four narrower fabrication lines have been added in new factory space, following completion of the expansion in 2020. There are also three fabrication bays, and an outside area being developed for manufacturing and trial assembly. These all service JSSL's target commercial and industrial sectors of multi-mix commercial, healthcare, data centres, retail and the industrial and manufacturing sectors.
- A further INDISEC® plated beam line was added in 2020 to the existing two plated beam lines, together with a bit shop and additional painting facilities.
- At JSWSMD, a new decking line is being added, doubling the capacity of 60mm decking, alongside executing other decking lines.

In response to the strong long-term growth projections for India and the expected continued conversion of the market from concrete to steel, and in tandem with our joint venture partner, we are in the process of selecting a plot of land to facilitate expansion of the business in the future. We expect that this land purchase will be completed in the second half of the 2023 financial year. Whilst Bellary continues to ramp up towards its maximum capacity in 2023, this land purchase will allow the business to expand its geographical footprint in India whilst providing it with the platform to build quickly and incrementally add the necessary volume to support the expected future market growth.

Outlook

Following the pandemic, JSSL should benefit from a bright market outlook as the switch from concrete to steel in construction in India accelerates, generating strong demand. The medium and longer-term growth predictions for India remain very positive. With JSSL's holistic design and build capability, its operational capability and capacity and its established network of suppliers and contractors, it is well set to take further advantage of both economic and sector growth.

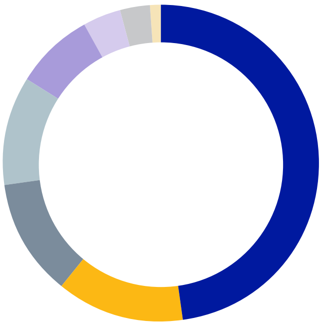
Overall, we remain positive about the long-term development of the Indian market and of our ability to build further value in JSSL.

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 2021 calendar year are shown below (as defined by the BCSA):



	Percentage	Tonnes
All industrial (including distribution)	48%	385,000
Power and energy	13%	103,000
Commercial offices	12%	99,800
Transport (including bridges)	11%	86,000
Health and education	8%	64,200
Other	4%	36,200
Leisure	3%	23,500
Retail	1%	5,300
	100%	803,000

Nuclear and Infrastructure

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.

Transport
10-20%
Group market share (including bridges)

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

Successes

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

Commercial and Industrial

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, Kings Cross P2, The Shard, Leadenhall Tower, 5 Broadgate, Nova Victoria, New Street Square, South Bank Tower, Principal Place, One Angel Court, Southbank Place, St Giles Circus Development, Hanover Square Masterplan, One Braham, Bankside Yards, One Sherwood Street and numerous smaller developments both in London and the UK regions.

Commercial and Industrial (continued)		
Industrial and distribution **10-20%** **Group market share** ↑	The Group is a trusted partner to the industrial, warehousing and distribution industries, thanks to our strong reputation for engineering excellence and versatility. Unrivalled capacity, the ability to meet diverse and rigorous requirements and other strengths such as design capability, supply chain co-ordination and delivery speeds set us apart from our competitors.	**Successes** Major contracts for BMW, Unilever, Sports Direct, Ocado, ASDA, Sainsbury's, Prologis, Gazeley, Jaguar Land Rover, Rolls-Royce, DHL and B&M and large industrial facilities in the Republic of Ireland, Swindon and Littlebrook.
Stadia and leisure **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), Sky Studios and Fulham FC.
Retail **<5%** **Group market share** ↑	Retail developments are becoming increasingly complex and ambitious as towns and cities position themselves as attractive shopping destinations in today's competitive economy. Major redevelopment in cities and out-of-town shopping facilities are challenging projects in their own right, requiring different skills and services. Project management and supply chain linkage are vital to successful project execution.	**Successes** Bradford's Westfield Shopping Centre, Stratford's Westfield Shopping Centre, Cherry Park Development, Hereford Old Livestock Market, Birmingham John Lewis, Bracknell's The Lexicon, Coal Drops Yard and projects for ASDA, Sainsbury's, Tesco, Morrisons and Costco.
Data centres and other **20-30%** **Group market share** ↑	Data centres are an ever-growing part of the business world. In recent years, they have become increasingly important to businesses of all sizes as they look for cost-effective alternatives to high in-house IT and other costs. With a large proportion of data centres being specified in steel, the Group is well placed to meet the needs of this rapidly expanding sector, and our cost, speed and flexibility have resulted in several key contract awards.	**Successes** Data centres for Microsoft (Amsterdam), Telehouse (London), large data centres in the Republic of Ireland, Belgium and Finland. Other projects include a research facility for the European Spallation Source (Sweden), multiple contracts with Sellafield and the Atomic Weapons Establishment ('AWE'), and processing projects with Centrica and water distillation specialist SNF.
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.

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

OUR STRATEGY

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

We will achieve this through the Group's strategy which is focused on its core strengths of engineering and construction in the UK, Republic of Ireland and continental Europe.

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

Our business improvement programme represents the consolidation of all the Group's ongoing improvement projects, established to help us deliver the Group's overall strategy. These include improvements in business processes, use of technology, manufacturing efficiencies, quality control, cost reduction programmes and new product development, all set within the framework of strong risk management and control. The progress we have made on these initiatives have served the Group well during the COVID-19 pandemic and the current inflationary market conditions.

Smarter

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

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

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

Safer

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

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

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

More Sustainable

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

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

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

Strategic pillar	Link to KPIs	Link to principal risk
Growth Our aim is to capitalise on growth opportunities, both in the UK and in Europe, and to maximise our market share. Read more on page 32	**1** **2** **3** 4 **5** **6** 7	**A** **B** C **D** E **F** **G** H I
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 33	**1** **2** **3** 4 **5** **6** 7	**A** **B** C **D** E **F** **G** H I
India Our aim is to build value in JSSL and we remain very positive about the long-term development of the Indian market. Read more on page 34	1 **2** 3 4 **5** 6 7	A B C D E F G **H** I
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 35	**1** **2** **3** **4** **5** **6** **7**	**A** B **C** **D** E F G H I
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 36	**1** **2** 3 **4** **5** 6 7	**A** **B** C **D** E **F** **G** H I

Key performance indicator reference number

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

Key to principal risks

- A Health and safety
- B Supply chain
- C People
- D Commercial and market environment
- E Mispricing a contract (at tender)
- F Cyber security
- G Failure to mitigate onerous contract terms
- H Indian joint venture
- I Sustainable and responsible business

[1] See note 32 for APM definitions.

OUR STRATEGY

GROWTH

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

Strategic priorities

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

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

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

Achievements in 2022

Increased Group revenue by 11 per cent, despite the current challenging market conditions. This represents an increase in revenue of more than 50 per cent over the last five years, reflecting the benefit of our significant market sector, geographical and client diversification.

Achieved an increased underlying profit before tax of £27.1m (2021: £24.3m), despite inflationary headwinds, demonstrating the resilience of the Group's operations.

The UK and Europe order book at 1 June 2022 stands at a record level of £486m. This reflects a balanced order book, containing a healthy mix of projects across our chosen sectors and leaves the Group well positioned with a strong future workload.

Continued to invest in organic growth, further developing our 'Severstor' and 'Rotoflo' modular product ranges. This has resulted in a growing order book across an expanding customer base, and an attractive pipeline of potential orders.

Expansion of CMF is underway to service a growing cold formed steel market. The expanded capacity will allow CMF to continue to develop its product ranges, serve an external client base, and ensure that its market share is maintained and increased in line with expected market growth.

Implemented a new simplified divisional structure for UK and Europe operations – creating three new divisions aligned with our chosen ten market sectors. This will provide the Group with a better platform to fulfil its strategic growth aspirations.

Objectives for 2023

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

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

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

Leverage the new divisional structure to identify further opportunities for growth, both organically and through selective acquisitions, to further enhance the services we can offer.

Continue to develop the product offering and client base at CMF, taking advantage of the expanded capacity.

CLIENTS

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

Strategic priorities

Quality of service:

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

Innovative engineered solutions:

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

Achievements in 2022

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

Further strengthened our relationships with key clients to ensure that when certain construction programmes were delayed and disrupted due to supply chain challenges or when inflationary pressures stretched existing budgets, our operational delivery capabilities allowed us to help them deliver changes to these programmes more quickly and efficiently.

Our preferred and predominant two-stage and negotiated procurement routes has helped significantly by allowing early collaboration with the client and supply chain and providing increased price and programme certainty.

We have continued to develop and deepen our relationships with the clients of DAM Structures, which by their nature has allowed us to establish relationships at an earlier stage of the project life cycle than the Group, in the past, would typically have become involved.

During the year, we continued to collaborate with several clients, attending workshops in areas such as sustainable procurement, low embodied carbon steel, and material passporting. Early engagement with clients remains vital in reducing the embodied carbon in the structures we build, an important part of our journey towards net zero.

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

Objectives for 2023

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

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

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

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

Build relationships with a wider client base as we continue to extend our new modular product ranges, further enhance our 'Severstor' and 'Rotoflo' product offerings and through the increased cold rolled steel products offered by our joint venture, CMF.

OUR STRATEGY

INDIA

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

Strategic priorities

Value building in India:

Our aim is to build further value in the business whilst the market continues its conversion from concrete to steel and its recovery from the effects of the pandemic.

Achievements in 2022

JSSL reported a strong order book of £158m at 1 June 2022 (1 November 2021: £140m), reflecting the strong underlying demand for structural steel in India.

The business has returned to profitability in 2022, following a difficult start to the year when output was disrupted by the second wave of COVID-19. This reflects revenue growth and margin improvement.

Continued to develop strong existing relationships with several key developers and clients for large commercial projects and developed formal strategic alliances with certain key clients, mainly for commercial, data centre and healthcare projects.

In response to the strong long-term growth projections for India and the expected conversion of the market from concrete to steel, in tandem with our joint venture partner, we are in the process of selecting a plot of land to facilitate expansion of the business in the future.

Objectives for 2023

Capitalise on the strong underlying demand in India for structural steel by continuing to grow the order book and optimise the mix of higher margin commercial work, to benefit operating margins.

Leverage the increased Bellary factory capacity as JSSL continues its expected recovery towards pre-pandemic levels of output in 2023.

Continue to invest in the management team, technical and operational staff to further drive efficiency improvements.

Complete the purchase of land to allow the business to expand its geographical footprint in India whilst providing it with the platform to build quickly and incrementally add the necessary volume to support the expected future market growth.

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 whilst maintaining a safe working environment.

Achievements in 2022

Maintained our 'safety first' core value across the Group. This assumed an even greater emphasis in 2022, as working practices return to normal post-pandemic.

Continued to develop our new platform for reporting SHE incidents and completing inspections to identify trends and root causes in safety performance to enable targeted improvements. In 2022, our injury frequency rate ('IFR') and accident frequency rate ('AFR') both reduced by over 10 per cent. Both IFR and AFR continue to outperform the industry averages.

In June 2021 we welcomed the appointment of Rosie Toogood to the board, our second female board member.

Launched our Group-wide 'MyVoice' forums. Louise Hardy, our designated non-executive director responsible for workforce engagement, Alan Dunsmore, our CEO, and Samantha Brook, our Group HR Director, have regularly met with forum representatives to gather a deeper understanding of colleagues' perspectives on which to build a sustainable Group-wide approach for ongoing dialogue.

Continued our focus on mental health, with working practices again changing post-pandemic. To support our people, we have maintained an increased level of Group-wide communications and encouraged the use of Microsoft Teams to facilitate regular video calls, with our office colleagues now returning to the office on three days per week.

Continued to invest in our people, through the continuous provision of training programmes, both internal and external courses. Refreshed our online performance review process (MyPerformance) which we continue to roll out at different grades across the Group.

Launched our 'development on a different scale' graduate recruitment programme to address future skill shortages and became members of the '5% Club', publicly announcing our commitment to have 5 per cent of our workforce 'earning and learning' over the next five years.

During the year, through our apprenticeship programme, we had 15 apprentices join the business, taking the Group total to 21 apprentices.

Objectives for 2023

Louise Hardy will continue to lead our 'MyVoice' forums in 2023, and we look forward to continuing this work with our colleagues in the year ahead.

Continue to deliver our behavioural safety training programme and our wide range of internally and externally facilitated training courses.

Promote the health and wellbeing of our people and their families through our enhanced Employees Assistance Programme ('EAP') and app (My Healthy Advantage) and external resources to ensure our colleagues receive support in these challenging economic times.

Promote diversity and equality through employment practices that are free from discrimination and in accordance with human rights principles.

Further develop processes and dashboards to capture and report on a wide range of employee-related data than can inform our HR strategy, help drive our inclusivity and diversity and foster our culture.

Continue to support employee-led local community initiatives and developing strong community partnerships.

Maintain our focus on reducing our IFR rate to ensure we are continuing to drive the appropriate safety behaviours.

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 operational improvement programme is to further develop the Group's risk assessment, operational and contract management processes.

Invest in market-leading technology:

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

Achievements in 2022

During the year, we have continued our drive to reduce costs and upgrade our fabrication capacity and efficiency. This has helped us offset many of the supply chain and cost pressures currently being experienced by the Group. Initiatives in 2022 include:

- Continued roll-out of our new coatings management system, at Dalton, covering improvements to the specification, management and application of paint systems, which are becoming ever more complex and bespoke.
- Implementation of 'right first time' initiatives to improve quality, including the targeted reduction of factory and site NCRs (rework items) and drawing office errors.
- Ongoing streamlining of production flows and improvement of real-time factory information, particularly at Dalton, including the use of mobile devices to capture information at the point of use. This will drive quality, reduce bottlenecks and improve the reliability and speed of our operations.
- As part of our capital investment programme, we have continued to expand and automate our fabrication capability at Dalton to improve the throughput and efficiency of these operations. We have invested £7.4m in capital expenditure in 2022 to drive operational efficiencies and organic growth across the Group.
- Continued good progress on our digital journey, including the automation of repetitive tasks in areas of our design and drawing office, and the optimisation of engineering software.

ESG

- Good progress made in 2022 in further reducing energy and fuel consumption and emissions and we remain well on course to achieve our target of reducing our scope 1 and 2 greenhouse gas ('GHG') emissions by 25 per cent by 2025 against a 2018 baseline.
- Awarded a Carbon Disclosure Project ('CDP') index score of 'A-', an improvement from our prior year score of 'B', and maintained our 'A' rating in the CDP Supplier Engagement Rating.
- Achieved our target to be accredited as carbon neutral for our manufacturing and construction operations by the Carbon Trust.

Objectives for 2023

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

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

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

Maintain our current momentum with our target of reducing our scope 1 and 2 greenhouse gas ('GHG') emissions by 25 per cent by 2025 - including the switch to 'green' electricity at all our production facilities (which is now largely complete), through mandating hydrogenated vegetable oil ('HVO') fuels and the transition to electric and hydrogen construction plant where possible.

Development of further ESG targets and enhancement of ESG dashboards.

STRATEGY IN ACTION

CAPITAL INVESTMENT: CNC MACHINE, DALTON

As part of our drive for continuous improvement and through investment in modern technology to drive efficiency, the Group has invested in excess of £5 million over recent years to install and commission a new automated Computer Numerical Control ('CNC') processing line at its main production facility at Dalton.

The new line has green credentials using direct drive, low-energy, low-maintenance servo motors supported with carbon tipped tooling. This enables processing to be achieved in seconds rather than minutes, covering a range of processes including saw cuts, drilling, milling, blasting and profiling with plasma and oxy fuel. The line is designed to process a complete range of steel sections through a combination of heavy-duty processing machines, optimising flow and increasing throughput with minimal manual intervention.

The Group's investment brings the best-in-class CNC equipment and software, coupled with automated handling and tracking to enable our production lines to meet high volume steel production requirements to service the wide range of Severfield clients.

"This investment is another step towards our goal of higher-level production capability that supports our efforts to maximise throughput at our Dalton site and at the same time delivering improved efficiencies. Coupling state-of-the-art machining capability with autonomous handling and processing equipment has challenged the team to both plan and think differently in how we process steel in volume. Going forward, this in turn will help Severfield stay at the forefront of delivering high quality products with best-in-class service and support to our customers."

Mike Mannion
Group manufacturing director

ENGAGING WITH OUR STAKEHOLDERS

We maintain regular dialogue with our key stakeholders so that we can take account of their views and act with regard to their interests. Our approach to engagement extends across all of our stakeholders, from those who influence what we do and benefit from the value we create, to those who just influence what we do.

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

Our culture

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

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

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

Information on our performance against our safety, health, environmental and people objectives can be found in our 2022 'building a responsible and sustainable business' report.

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

Shareholders

Why we engage

We have c. 6 million shareholders, including institutional and personal investors, providing the Group with funds for investment in long-term growth. The board is committed to building and maintaining good positive relationships with all shareholders and ensuring regular, open dialogue with them throughout the year.

How we engage

- 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.

Their key material issues

- Share price growth and a continuing progressive dividend policy.
- Robust financial and risk management.
- Strong corporate governance.
- Regular communication of the Group's performance and strategy, including climate-related strategic objectives.

Customers

Why we engage

Our proven ability to work collaboratively and innovatively with clients is fundamental to our success and is critical to securing new work and achieving our strategic goals.

How we engage

- We focus on 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.
- Customer feedback and key customer strategic initiatives are regularly reported to the board. The board also takes the lead in suggesting specific customer collaborations.

Their key material issues

- Outstanding customer service, benefitting from our employees' technical knowledge and expertise.
- Working closely from the start to develop innovative and cost-efficient methods.
- Collaborative approach to lower carbon emissions and improving sustainability across all projects.
- The Group's continued good performance and delivering a strong balance sheet.

Employees

Why we engage

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

How we engage

- We keep our employees informed of our financial performance through newsletters, emails, an intranet and briefing sessions, and let them know of any external factors and significant events that might have an impact on them.
- During the COVID-19 outbreak in particular, we have communicated regularly with our staff via a dedicated online information hub relating to the crisis through our intranet platform.
- We offer share plans to employees (including the opportunity to save for three years under our SAYE scheme) to encourage them to engage with business performance and progress.
- Each Group company updates its employees on business goals, market conditions and company performance. Business-specific employee roadshows are held throughout the year and employees are invited to give their views and provide feedback on a range of topics.
- This year we launched MyVoice, a comprehensive engagement programme led by Louise Hardy, our workforce engagement director, to ensure that the views of our staff are represented in the board room.

Their key material issues

- To work in a safe and respectful environment, with consideration given to employees' physical and mental health concerns.
- Commitment to continually improving health and safety targets, and reducing IFRs.
- Investment in personal and professional development.
- A fair reward and benefit structure.

Suppliers

Why we engage

Our relationships with our supply chain partners are of strategic importance and key to the Group's success.

We develop long-term relationships with our supply chain and work with them to ensure we successfully deliver our projects efficiently and to a high standard.

How we engage

- Most of our suppliers are signed up to Group-wide agreements. We have a structured timetable of senior contact with suppliers of strategic importance and hold regular meetings with suppliers, covering a broad range of topics, including identifying and managing any incidents of modern slavery.
- We have a comprehensive Group-wide supplier accreditation process which involves reviewing and scoring supplier performance on criteria such as quality and safety and providing them with constructive feedback.
- Subcontractors who achieve preferred status benefit from long-term relationships and repeat work.
- Our policy is to treat our suppliers and contractors fairly and with respect, which includes paying our supply chain promptly. Our three main businesses are all signatories of the Prompt Payment Code ('PPC'), and for the PPC reporting period of 1 October 2021 to 26 March 2022, all of the Group's businesses that are PPC signatories reported that between 90 and 95 per cent of our suppliers and subcontractors were paid within 60 days.
- The board receives feedback on the performance of key suppliers and on our prompt payment practices and specific supplier initiatives.

Their key material issues

- Repeat opportunities to work with the Group.
- To be treated fairly and with respect.
- Prompt payment.
- Sound health and safety performance.

Local communities

Why we engage

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.

How we engage

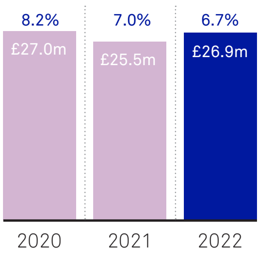
- Our directors have taken up opportunities to learn more about engagement with community stakeholders on specific projects through our programme of site visits.
- Through social and charitable committees within each business and through the Severfield Foundation we get involved with and raise money 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 81.
- The board receives regular ESG and climate-related reports and updates from the SHE director. Further detail of the governance of climate-related matters can be found in our Task Force on Climate-related Financial Disclosures ('TCFD') report on pages 59 to 69.

Their key material issues

- Improvements to and investment in the local environment and quality of life of those that live and work in the surrounding areas of the projects we work on or our factories.
- Sustainable buildings and infrastructure which considers whole life impact.
- Continuing commitment from the board to reduce carbon emissions to achieve the Group's sustainability target of net zero by 2040.

KEY PERFORMANCE INDICATORS

01



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

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

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

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

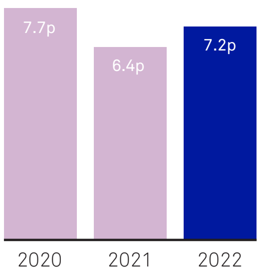
Underlying operating margin is calculated as underlying operating profit expressed as a percentage of revenue.

Our performance
Underlying operating profit before JVs and associates has increased by 5 per cent against a comparator, which included a one-off profit of £1.5m on a bespoke paint package on the large industrial project in the Republic of Ireland. This performance demonstrates the resilience of the Group in challenging market conditions.

Stakeholder linkage

Strategic pillar

02



Underlying* basic earnings per share ('EPS')

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.

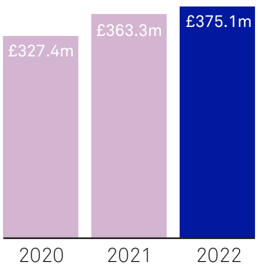
How we calculate
EPS is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.

Our performance
EPS has increased 13 per cent, reflecting the increased underlying profit before tax in the year.

Stakeholder linkage

Strategic pillar

03



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

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

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

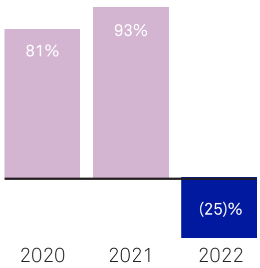
Like-for-like revenue excludes the revenue generated from the recent acquisitions of DAM Structures.

Our performance
Like-for-like revenue has increased by 9 per cent, reflecting an increase in activity and an increase in steel prices.

Stakeholder linkage

Strategic pillar

04



Operating cash conversion*

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

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

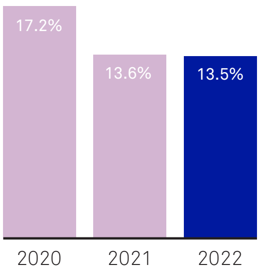
How we calculate
Operating cash conversion is defined as cash generated from operations after net capital expenditure (before interest and tax) expressed as a percentage of underlying operating profit (before JVs and associates).

Our performance
Operating cash conversion was -25 per cent, below our target conversion rate of 85 per cent, however, we expect to exceed our target once again in 2023. Our net working capital has increased by £34.5m during the year, reflecting the expected unwinding of the low working capital position at the start of the year, together with the impact of steel price rises and higher steel purchasing to meet our 2023 production requirements.

Stakeholder linkage

Strategic pillar

05



Return on capital employed ('ROCE')*

Why this is important

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

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

How we calculate

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

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

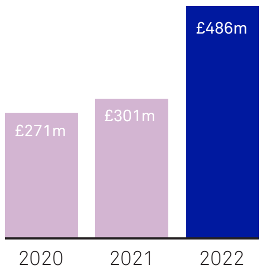
Our performance

Despite the Group's ROCE decreasing slightly in the year, the Group continues to exceed our benchmark of 10 per cent and has achieved an average ROCE of 15 per cent over the last five years.

Stakeholder linkage

Strategic pillar

06



Order book

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

Our performance

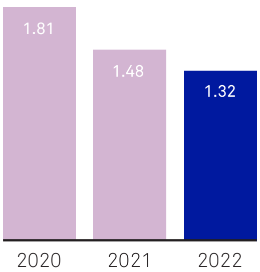
Our record UK and Europe order book stands at £486m at 1 June 2022, representing a 61 per cent increase since 1 June 2021. This solid order book position leaves the Group well positioned to deliver on its strategic objectives.

Stakeholder linkage

Strategic pillar

* See note 32 for APM definitions.

07



Injury frequency rate ('IFR')

Why this is important

IFR is an industry-standard measure of the safe operation of our business and is one of a number of health and safety measures the Group uses to monitor its activities.

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

How we calculate

IFR is the number of reportable injuries per 100,000 hours worked. The 2022 result excludes DAM Structures, which will be included in the reported IFR statistics in 2023 now that we have established a baseline performance in the year following its acquisition.

Our performance

Despite wider industry trends moving in the opposite direction as working practices return to normal post-pandemic, we have seen a further reduction in injury rates, resulting in an IFR (including JSSL) of 1.32, compared to 1.48 in 2021.

Stakeholder linkage

Strategic pillar

Key to stakeholder linkage

Clients
Employees
Shareholders
Communities
Suppliers

Key to strategic pillar

Growth
Clients
Operational Excellence
India
People

OUR OPERATIONAL PERFORMANCE

WE ARE DELIGHTED TO BE REPORTING A RESILIENT AND STRONG PERFORMANCE DESPITE THE ONGOING MARKET CHALLENGES.

ALAN DUNSMORE
CHIEF EXECUTIVE OFFICER

OPERATING REVIEW

Group overview

The Group has had another successful year in 2022, delivering profit growth both in the UK and India against a backdrop of some challenging market conditions, and securing a significant value of new work, which is reflected in our order books of £486m in the UK and Europe and £158m in India. Together, these provide us with good visibility of earnings and leave us well-positioned with a strong future workload for the 2023 financial year and beyond.

Despite inflationary and supply chain pressures which have been a feature of most of the year, with an already challenging trading environment now being exacerbated by the Russian invasion of Ukraine, the 2022 results demonstrate the resilience of the Group and serve to highlight its many strengths. These include the additional resilience provided by our market sector, geographical and client diversity, the talent and commitment of our workforce, our supply chain management expertise, and our strong financial position.

In 2022, we have increased our revenue by 11 per cent to £403.6m (2021: £363.3m) and our underlying[1] profit before tax by 11 per cent to £27.1m (2021: £24.3m), following the operational disruption experienced in 2021 from the COVID-19 pandemic. The increase in profit also reflects our ability to offset inflationary cost increases through a combination of operating efficiencies, higher selling prices and contractual protection as steel remains largely a pass-through cost for the Group.

We have maintained a good financial position throughout the year, enabling us to continue to grow the dividend and support ongoing investment in the business. Year-end net debt (on a pre-IFRS 16 basis[1]) was £18.4m (2021: net funds of £4.4m), which includes the outstanding term loans for acquisitions of £14.9m (2021: £20.8m). The increase in borrowings mainly reflects a normalisation of working capital, the impact of steel and other input price rises, together with higher steel purchases to meet production requirements when executing our record order book in 2023.

The Indian joint venture ('JSSL') has performed profitably in 2022, following a difficult start to the year when output was disrupted by the second wave of COVID-19. JSSL continues its recovery towards pre-pandemic levels of output in 2023 and the company's strong order book, together with an improving pipeline of potential orders, reflects a continuing strong underlying demand for structural steel in India. All this leaves the business very well-positioned to take advantage of an improving economy.

Strategy

The Group's strategy is driven by its core strengths of engineering and construction. This well-established strategy is unchanged, focused on growth, both organic and through selective acquisitions, operational improvements and building further value in JSSL.

In recent years, the evolution of this strategy has been particularly evident in our significant market sector, geographical and client diversification, which has enabled us to successfully navigate periods of market softness in certain of our main sectors in the UK, notably commercial offices. This has resulted in a more balanced business (the Group now serves ten market sectors) and a resilience which has seen us successfully negotiate the headwinds of Brexit, the COVID-19 pandemic and the inflationary pressures in the current year. The successful implementation of our strategy has also facilitated revenue growth and reinforced the Group's strong balance sheet and ability to generate cash which have allowed us to continue to invest in our operations and in acquisitions such as Harry Peers and DAM Structures. As a result, our capabilities are aligned with many market sectors with strong growth potential. The Group is well positioned to meet the demand for ongoing investment in the UK's infrastructure, while our diverse construction activities remain

[1] See note 32 for APM definitions.

focused on key areas such as industrial and distribution, data centres, stadia and leisure, nuclear and commercial offices.

In India, we remain positive about the long-term trajectory of the market and of the value creation potential of JSSL. This is especially considering the structural changes in the economy over recent years, the government's ongoing focus on simplifying regulations and the 'ease of doing business', and the significant expansion of the business already evidenced to date which has resulted in a business capable of producing over 100,000 tonnes of steelwork from one site in Bellary.

In response to the strong long-term growth projections for India, and in tandem with our joint venture partner, we are in the process of selecting a plot of land to facilitate expansion of the business in the future. We expect that this land purchase will be completed in the 2023 financial year. This will allow the business to expand its geographical footprint whilst providing it with the platform to build quickly and incrementally add the necessary volume to support the expected future market growth.

New divisional structure

The Group has grown significantly over recent years, both organically and through acquisition. In response to this, since the size and shape of the Group has changed and evolved significantly over the last five years, we have created a simpler divisional structure for our UK and Europe operations.

This has resulted in three new market-focused divisions (see below) in a structure designed to align our existing businesses more closely with the ten market sectors that we serve and our growing customer base. Further information on how this new structure will be presented, will be provided at a Capital Markets Day ('CMD') later in the calendar year (a separate RNS notice will be issued for the CMD in due course). There are no non-underlying costs associated with this re-organisation which has been implemented for operational purposes.

The market dynamics of our three new divisions are different, in terms of the solutions that customers seek, project characteristics, the competitive landscape and their economic cycles. This in turn offers very different opportunities for the Group in terms of the growth rates and margin opportunities available to us. By creating a Group structure with three divisions focused on our chosen markets, we will not only optimise the operations of each division to the market dynamics they face but provide us with a better platform to fulfil our strategic growth aspirations, both organically and by acquisition.

This new structure will also allow us to adopt a more holistic approach to manufacturing across the Group, under the leadership of our Group Manufacturing Director, as we continue to invest in and optimise our factories, particularly at our main production centres in Dalton, Lostock and Enniskillen.

With effect from 1 April 2022, the current structure of six mainly location-based business units was streamlined into three market-focused divisions as follows:

The **Commercial and Industrial** division will bring together the Group's strong capabilities which serve the following market sectors – industrial and distribution, commercial offices, stadia and leisure, data centres, retail and health and education.

The **Nuclear and Infrastructure** division will encompass the Group's market-leading positions in the nuclear, power and energy, transport (road and rail) and process industries sectors.

The **Products and Processing** division will include the growing modular product ranges of Severfield (Products & Processing) based in Sherburn and of Construction Metal Forming ('CMF'), our cold rolled steel joint venture business based in Wales. We continue to be the only hot rolled steel fabricator in the UK to have a cold rolled manufacturing capability.

OUR OPERATING PERFORMANCE

UK and Europe review

Revenue was up 11 per cent over the prior year mainly reflecting an increase in steel prices and the full year revenue effect of DAM Structures which was acquired in February 2021. During the year, we continued to work on several large distribution facilities in the UK, our first HS2 bridge package, Water Orton Viaducts in the Midlands, and a large industrial facility in the Republic of Ireland, which is now substantially complete. Other significant revenue contributing projects include the Google Headquarters at King's Cross, the Co-op Live Arena in Manchester and Sky Studios in Elstree, together with a number of mid-sized office developments, both in London and the UK regions (including Argyle Street in Glasgow, and 30 Grosvenor Square and 30 South Colonnade, both in London).

The underlying[1] operating margin (before JVs and associates) was 6.7 per cent (2021: 7.0 per cent), resulting in an underlying[1] operating profit (before JVs and associates) of £26.9m (2021: £25.5m). This represents profit growth of six per cent against a comparator which included a one-off profit of £1.5m on a bespoke paint package on the large industrial project in the Republic of Ireland (if this one-off profit is disregarded, the Group's results show profit growth of over 12 per cent).

Whilst underlying operating profits have increased year-on-year, the slight reduction in the margin percentage mainly reflects the dilutive impact of steel prices which have recently more than doubled and are largely passed on to the client at zero margin. This has resulted in an increase in revenue of c.£20m in 2022 but no associated increase in the Group's absolute profitability. This dilutive effect on margins would reverse if steel costs reduced to pre-pandemic levels in the future.

Across the Group, inflationary pressures and supply issues for both us and our clients have presented challenges in 2022, with an already difficult trading environment now being exacerbated by the war in Ukraine. We have experienced some increases in lead times and supply restrictions, upward pressures on costs due to tighter labour markets and significant price increases for certain products and services. This has included steel products, reflecting the volatility in iron ore prices, increased energy costs and, latterly, some supply restrictions as a number of steel products previously originating in Russia and Ukraine. Whilst not immune to these pressures, we have not experienced any significant disruptions to operations and the impact has generally been managed through contractual protection, operating efficiencies, higher selling prices and by forward purchasing as appropriate, leveraging the Group's scale and supply chain and sub-contract management strengths. For steel supply, we benefit from relationships with several partners in the UK and continental Europe, reducing the risk of interruptions to the Group's steel supply.

Inflationary pressures remain present and are expected to continue into 2023, however we expect to be able to minimise the impact of these through the focused sourcing of materials through the supply chain and our ongoing operational efficiencies.

Smarter, Safer, more Sustainable

The Group's operational improvement programme has engendered a self-help culture within the organisation. This programme has served us well in maintaining efficient operations during the pandemic and in helping us to offset many of the supply chain and cost pressures currently being experienced by the Group.

During the year, we have continued our drive to reduce costs and increase and upgrade our fabrication capacity and efficiency. This includes the continued roll out of our new coatings management system at Dalton covering the reduction of paint waste and improvements to the specification, management and application of factory paint systems, together with 'right first time' initiatives to improve overall quality including the targeted reduction of factory and site NCRs (rework items) and drawing office errors. Having rolled out a new Group-wide production management system (StruMIS) in 2019, we are currently in the process of further streamlining production flows and improving real-time factory information at our main centre in Dalton. This includes the use of mobile devices to capture information at the point of use and to provide live information to both operatives and management. This will help drive quality, reduce bottlenecks, and improve the reliability and speed of our operations. As part of our ongoing capital investment programme, we have also continued to expand and automate our fabrication capability at Dalton to improve the throughput and efficiency of these operations.

The Group also continues to make good progress on its digital journey. This is focused on driving operational excellence through process standardisation and data alignment supported by the implementation of new systems. This includes our innovative approach to drawing and design, where we continue to make good progress with the automation of repetitive tasks, and the optimisation of engineering software under the leadership of our Group engineering director.

[1] See note 32 for APM definitions.

Order book, pipeline and market conditions

The future success of the Group is determined, amongst other things, by the quality of the secured workload and our discipline to maintain contract selectivity irrespective of economic conditions. The UK and Europe order book at 1 June includes a significant amount of new work which we have secured over the past twelve months and now stands at a record level of £486m (1 November 2021: £393m), of which £397m is planned for delivery over the next 12 months. This leaves the Group very well-positioned with a strong future workload for the 2023 financial year and beyond. The growth in the order book has been driven by several significant project awards. These include the new stadium for Everton F.C., a film studio, two large commercial office developments in London, and various large and several smaller industrial distribution facilities in the UK, reflecting a sector which continues to remain buoyant. We have also secured several new HS2 bridge packages and other bridge awards reflecting investment in infrastructure by Highways England and Network Rail. The order book remains well-balanced, showcasing the benefits of our strategic diversification over recent years, and contains a healthy mix of projects across the Group's key market sectors.

In terms of geographical spread of the order book of £486m, 96 per cent represents projects in the UK, with the remaining 4 per cent representing projects for delivery in Europe and the Republic of Ireland (1 November 2021: 95 per cent in the UK, 5 per cent in Europe and the Republic of Ireland). The more UK-centric nature of the current order book is driven by a lower proportion of work in the Republic of Ireland, as several projects, including the large industrial facility, draw to completion. This, together with fewer ongoing projects in continental Europe, reflects a pipeline which was adversely impacted by COVID-19 twelve months ago, but which has recovered strongly over recent months. Furthermore, whilst the order book is currently at record levels, only 16 per cent of this represents commercial offices, compared to a peak of c.60 per cent around five years ago. This highlights the success of our strategic diversification.

We remain encouraged by the current level of tendering and pipeline activity across the Group, both in the UK and in continental Europe, in which we retain a good market position and which remains an important part of our strategic growth plans. We are well-positioned to take advantage of some significant opportunities in the industrial and distribution (battery plants and distribution centres), transport infrastructure, nuclear and data centre sectors, and, despite predictions of the demise of the office following the pandemic, in the commercial office market, including in London. Although we remain mindful of the ongoing effects of Russia's invasion of Ukraine, with the most significant effects of COVID-19 now behind us, we remain well-placed to win work across a wide client base and in a diverse range of market sectors and geographies. This provides us with greater resilience and the ability to drive future profitable growth.

'A golden age of infrastructure'

As a key component of economic growth, the construction industry will be central to a sustainable economic recovery. New, low carbon infrastructure (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings) will play a leading role in stimulating sustainable growth. In November 2020, the UK Government released details of its five-year plan, the National Infrastructure Strategy ('NIS') to invest in digital, transport and energy to drive economic recovery, levelling up and meeting the UK's net zero emissions target by 2050. This plan announced funding of £650 billion, an increase of around £100 billion from the previous plan, for developments in roads, railways, power networks and other UK infrastructure projects. At Network Rail, in addition to HS2, the CP6 (control period) budget of around £53 billion (2019–2024), which includes a significant amount of rail electrification work, is substantially higher than the previous CP5 budget of £38 billion (2014-2019). At Highways England, the second Road Investment Strategy ('RIS2') budget of £24 billion (2020-2025) is a significant increase over the expenditure of £15 billion during 'RIS1' (2015-2020). We have already secured some significant road bridge awards and orders for HS2 from a variety of consortia, together with some ancillary steelwork packages at Hinkley Point, and we continue to make good progress with several other similar opportunities, including rail electrification work.

OUR OPERATING PERFORMANCE

We remain well-positioned to win work in the transport sector given the Group's historical track record and our in-house bridge capability, together with the in-depth expertise of DAM Structures.

Looking further ahead, in April 2022, prompted by Russia's invasion of Ukraine, the UK government published its Energy Security Strategy, pledging a new generation of nuclear power (under the banner of 'Great British Nuclear') as well as offshore wind generation, together with several other new energy supply initiatives, to reduce reliance on foreign energy supply. The combination of the in-house nuclear expertise acquired with Harry Peers, together the Group's unmatched scale and capability to deliver major infrastructure projects, leaves us well positioned to win work from such projects, many of which are likely to have a significant steelwork content.

Clients – increasingly broad spread and diverse

Our proven ability to work collaboratively and innovatively with clients is fundamental to our success and is critical to securing new work. Our preferred and predominant two-stage and negotiated procurement routes help significantly by allowing early collaboration with the client and supply chain and providing increased price and programme certainty.

Our unique capability to deliver complex design solutions, our capacity and speed of fabrication, the expert capabilities of the Group and its colleagues and our management and integration of the construction process is important to our clients and a key differentiator for the Group. During the year, when certain construction programmes were delayed and disrupted due to supply chain challenges or when inflationary pressures stretched existing budgets, our operational delivery capabilities allowed us to help clients deliver changes to these programmes quickly and efficiently, to provide clients with problem-solving solutions and to ensure that programme milestones were achieved.

We have again achieved national recognition though several awards including at the 2021 Structural Steel Design Awards (for 60 London Wall), the Royal Society for the Prevention of Accidents ('RoSPA') (Harry Peers won the President's award) and at the 2021 Morgan Sindall Supply Chain Awards. We have also been shortlisted for training excellence at the Construction News Specialists Awards.

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

Commercial offices	Google King's Cross, London Argyle Street, Glasgow 30 Grosvenor Square, London 30 South Colonnade, London Wilton Park, Dublin
Industrial and distribution	Large industrial facility, Republic of Ireland Large distribution centres, Wakefield, Stockton, Luton, Belvedere
Nuclear	Atomic Weapons Establishment (various)
Transport infrastructure	M8 Footbridge, Glasgow Water Orton Viaducts, Midlands A46 Binley bridge, Midlands
Data centres and other projects	Data centre, Republic of Ireland Sky Studios, Elstree
Stadia and leisure	Fulham FC, London Everton FC, Liverpool Co-op Live Arena, Manchester Pinewood Studios, London

Modular construction

Our modular (off-site) construction offering continues to include the growing product ranges of Severfield (Products & Processing) ('SPP') based in Sherburn and of CMF, our cold rolled steel joint venture business based in Wales. These businesses will make up the Group's new Products and Processing division.

SPP

SPP was originally established to allow us to address smaller scale projects and provide a one-stop shop for smaller fabricators to source high-quality processed steel and ancillary products, at lower margins. We have continued to grow and invest in the business, including strengthening the factory management, engineering and commercial functions, to maintain our focus on growing our 'Severstor' modular product range and 'Rotoflo' products, both of which attract higher margins. For Severstor, we are already making significant progress in growing our client base and have secured repeat orders from several blue-chip clients as well as continuing to develop our pipeline of opportunities. During the year, to help develop the overseas footprint of the business, the Rotoflo team appointed a new sales manager in India where we see some potentially interesting opportunities, particularly for the paint industry. SPP has already been awarded 'Fit for Nuclear' and certain Network Rail accreditations which, together with an expanding client base and our previous record in modular construction, we believe will help us to achieve our future growth aspirations for the business.

As well as servicing its growing external client base, SPP has also continued to provide high-quality sub-contract fabrication packages for other Group companies to assist in the delivery of our record UK and Europe order book, thus ensuring a greater proportion of project work remains in-house and subject to Severfield quality standards.

CMF

CMF has continued to develop its product range which now includes load bearing frame and deck profiles, purlins and side rail systems to service a cold formed steel market which has grown significantly in recent years through the increased use of steel in off-site and modular construction. In response to these market developments, the business is currently being expanded through the development of a new, separate manufacturing facility in South Wales. This new facility is required as the existing CMF facility in Pontypool is operating at close to full capacity and cannot be developed any further due to space constraints. The expanded capacity will allow CMF to serve an external client base and ensure that its market share is maintained and increased in line with market growth.

The expansion project commenced earlier in the 2022 financial year and the facility is expected to be operational in the next six months. The overall cost of construction for CMF is c.£10m, including land of £3m, which is being financed by a combination of equity of c.£5m, provided in equal amounts by the joint venture partners in 2021, and bank debt of c.£5m.

India review

JSSL returned to profitability in 2022 despite a difficult start to the year when output was disrupted by the second wave of COVID-19. This follows the loss recorded in the previous year which was severely impacted by COVID-19. This recovery is evident in the Group's after-tax share of profit of £0.8m (2021: share of loss of £0.7m). The improved performance reflects a doubling of revenue to £100.3m, compared with £48.0m in the previous year, and an increase in the operating margin to 5.2 per cent, compared with 3.3 per cent in the previous year. Financing expenses of £3.3m (2021: £3.4m) are broadly unchanged from the previous year and turn JSSL's operating profit of £5.2m (2021: £1.6m) into a profit before tax of £1.9m (2021: loss before tax of £1.8m).

Notwithstanding some current inflationary pressures, JSSL has continued to win new work, resulting in a strong order book of £158m at 1 June 2022 (1 November 2021: £140m). In terms of mix, 37 per cent of the order book represents higher margin commercial work, with the remaining 63 per cent representing industrial projects (1 November 2021: commercial work of 62 per cent, industrial work of 38 per cent). The current higher level of industrial work is consistent with the ongoing fluctuations in the timing and mix of industrial and commercial work in a growing order book.

OUR OPERATING PERFORMANCE

JSSL's pipeline of potential orders continues to include several commercial projects for key developers and clients with whom it has established strong relationships, including in the commercial office, data centre and healthcare sectors. This, together with JSSL's healthy order book, reflects a strong and growing underlying demand for structural steel in India, leaving the business very well-positioned to take advantage of an improving economy. Accordingly, we expect the business to recover to pre-pandemic levels of output in 2023.

In response to this demand, which is supported by strong long-term growth projections for India and the continued conversion of the market from concrete to steel, and in tandem with our joint venture partner, we are the process of selecting a plot of land to facilitate expansion of the business in the future. We expect that this land purchase will be completed in the 2023 financial year. Whilst Bellary continues to ramp up towards its maximum capacity of c.100,000 tonnes in 2023, this land purchase will allow the business to expand its geographical footprint in India whilst providing it with the platform to build quickly and incrementally add the necessary volume to support the expected future market growth.

ESG

Health and safety

Our updated SHE strategy is based around three key areas: people, communication and engagement, and systems and processes. The strategy will serve to further enhance and progress our SHE culture and values as we strive to be industry-leading in our approach. The Group's safety focus remains on its six Life Saving Rules namely, Fundamentals (do not carry out a task unless you are trained to do it), Working at Height, Control of Lifting Operations, Machine Safety, Vehicle Movement and Material Stability.

In the previous year, we rolled out a new platform for reporting SHE incidents and completing inspections to identify trends and root causes in safety performance to enable targeted improvements. Following the improvements in safety performance in 2021, we have made further improvements in 2022, and maintained our primary focus on the Group's injury frequency rate ('IFR') and high potential near misses ('HiPos'). Despite wider industry trends moving in the opposite direction as working practices return to normal post-pandemic, we have seen a further reduction in injury rates, resulting in an IFR (including JSSL) of 1.32, compared to 1.48 in 2021. The 2022 result excludes DAM Structures, which will be included in the reported IFR statistics in 2023 now that we have established a baseline performance in the year following its acquisition. Furthermore, the Group's accident frequency rate ('AFR') (including JSSL) for the year, which is based solely on the level of RIDDORS (reportable accidents), of 0.16 (2021: 0.18) continues to outperform the industry average.

Sustainability

The board gives full and close consideration to environmental, social and governance ('ESG') factors when assessing the impact of the decisions it makes and supports. As a result of strategic decisions made in recent years, the Group now has a prominent market position in the high-growth markets of the future and is well-positioned to help accelerate the journey to net zero in its core sectors.

As part of our ambitious sustainability strategy, the Group has committed to reduce our scope 1 and 2 greenhouse gas ('GHG') emissions by 25 per cent by 2025 against a 2018 baseline, aligned with the Paris Agreement to limit global warming to below 1.5 degrees Celsius.

We remain well on course to achieve this target through the successful implementation of sustainability initiatives including the switch to 'green' electricity at all our production facilities (which is now largely complete), through mandating hydrogenated vegetable oil ('HVO') fuels and the transition to electric and hydrogen construction plant where possible. Progress of all targets is measured and monitored and reported monthly through ESG dashboards.

In 2022, for the second year running, the Group was included in the Financial Times ('FT') listing of Europe's climate leaders which showcases corporate progress in fighting climate change. For 2022, this list includes the c.400 European companies that have achieved the greatest reduction in their greenhouse gas emissions intensity between 2015 and 2020, over which the Group's emissions fell by 34 per cent. In the FT listing, for businesses with a rating from the Carbon Disclosure Project ('CDP'), only those with a score of at least 'B-' were considered. In 2022, we were awarded an 'A-' rating in the CDP index, improving on our 'B' rating from the previous year.

Our sustainability strategy also outlines our commitment to reach net zero for our scope 1 and 2 carbon emissions by 2040. Ahead of COP26 in 2021, the Group signed up to the United Nations 'Race to Zero' campaign, which requires the establishment of a net zero target in line with a 1.5-degree world, to hold off some of the worst climate impacts. We are on schedule to submit this target for validation by the Science-Based Target Initiative ('SBTI') by the end of the 2022 financial year.

During the year, we achieved our target to be accredited as carbon neutral for our manufacturing and construction operations by the Carbon Trust, in accordance with PAS 2060, the only recognised international standard for carbon neutrality. This is an important milestone in our journey towards net zero. Carbon neutral in this context means that we use carbon offsetting to eliminate our combined scope 1, scope 2 and operational scope 3 greenhouse gas emissions.

During the year we continued to collaborate with several clients, attending workshops in areas such as sustainable procurement, low embodied carbon steel, and material passporting. Early engagement with clients remains vital in reducing the embodied carbon in the structures we build, in tandem with our existing SteelZero commitments which demonstrate how important the transition to low embodied carbon steel production is to the construction sector.

Social

We recognise the importance of input from our people in helping us deliver on our strategic ambitions and, in 2022, we launched our Group-wide 'MyVoice' forums. These provide a formal, structured way for colleagues and management to connect, gain feedback and exchange information and views on any business-related topic. Louise Hardy, our designated non-executive director responsible for workforce engagement, Alan Dunsmore, our CEO and Samantha Brook, our Group HR Director, regularly meet with forum representatives. These meetings have provided valuable, ongoing insights and feedback for the board during a challenging year for everyone, and we look forward to continuing this work with our colleagues in the year ahead.

Summary and outlook

The Group has had a successful year in the face of some challenging market conditions, highlighting the benefit of the strategic and operational progress made over recent years. We have increased revenues and profits, including a return to profitability for JSSL, we have continued to drive efficiencies through our operational improvement programme, and our balance sheet remains healthy, allowing us to make the right long-term decisions for the business. Our new, simplified divisional structure in the UK and Europe will optimise the operations of each division to the market dynamics they face, and provide us with a better platform to fulfil our strategic growth aspirations.

We continue to make strong positive progress in our key market sectors, with the size and quality of our secured workload increasing during the year. This success is reflected in our order books of £486m in the UK and Europe and £158m in India. Our capabilities are aligned with many market sectors with strong growth potential, and we have an encouraging pipeline of significant, profitable opportunities in the UK, Europe and India, leaving us well positioned to increase our market share and to drive future profitable growth.

Whilst we remain mindful of the macro-economic backdrop, particularly regarding inflationary pressures which are expected to continue in 2023, we continue to expect to deliver further progress and our expectations for the year ahead remain unchanged.

Alan Dunsmore
Chief executive officer

15 June 2022

OUR FINANCIAL PERFORMANCE

OUR RECORD ORDER BOOK AND STRONG BALANCE SHEET UNDERPIN OUR AMBITIONS TO DELIVER SUSTAINABLE GROWTH.

ADAM SEMPLE
GROUP FINANCE DIRECTOR

FINANCIAL REVIEW

	2022	2021
Revenue	**403.6**	363.3
Underlying* operating profit (before JVs and associates)	**26.9**	25.5
Underlying* operating margin (before JVs and associates)	**6.7%**	7.0%
Underlying* profit before tax	**27.1**	24.3
Underlying* basic earnings per share	**7.2p**	6.4p
Operating profit (before JVs and associates)	**21.5**	22.7
Operating profit	**22.8**	22.3
Operating margin	**5.7%**	6.1%
Profit before tax	**21.0**	21.1
Basic earnings per share	**5.1p**	5.6p
Return on capital employed ('ROCE')	**13.5%**	13.6%

* The basis for stating results on an underlying basis is set out on the highlights page 6. A reconciliation of the Group's underlying results to its statutory results is provided in the Alternative Performance Measures ('APM') section, see note 32.

Trading performance

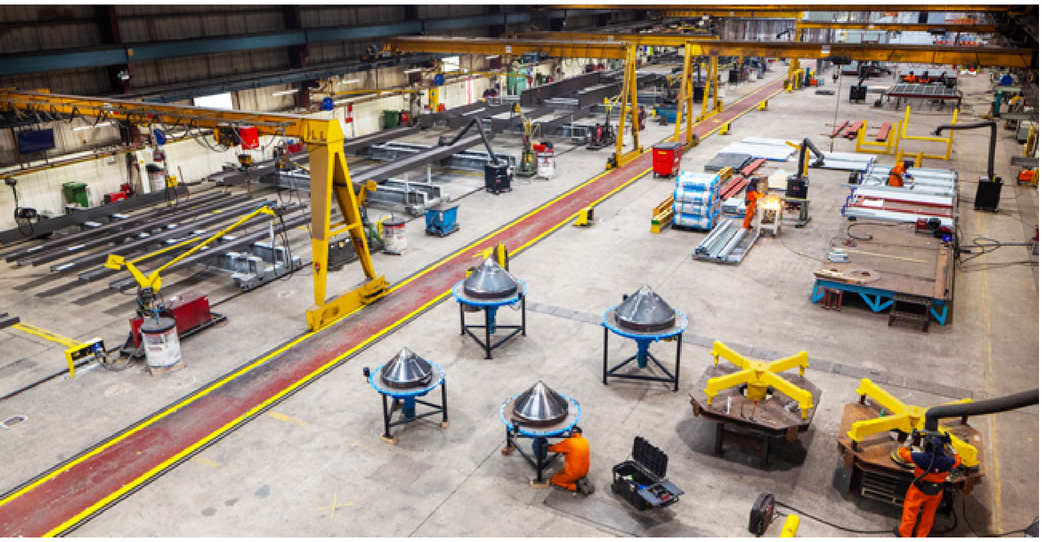
Revenue for the year of £403.6m represents an increase of £40.3m (11 per cent) compared with the previous year, reflecting an increase in steel prices (£19.2m) and the full year revenue effect of DAM Structures which was acquired in February 2021 (c.£20.0m).

Underlying* operating profit (before JVs and associates) of £26.9m (2021: £25.5m), was £1.4m higher than in the previous year which included a one-off profit of £1.5m on a bespoke paint package on the large industrial facility in the Republic of Ireland. This represents year-on-year profit growth of 6 per cent but if the one-off prior year profit is disregarded, the results show profit growth of 12 per cent. Whilst underlying* operating profits have increased, the slight reduction in the margin to 6.7 per cent (2021: 7.0 per cent) reflects the dilutive impact of steel price increases which are largely a pass through to the client at zero margin. This has resulted in an increase in revenue of c.£20m in 2022 but no associated increase in the Group's absolute profitability. The statutory operating profit, which includes the results of JVs and associates and the Group's non-underlying items, was £22.8m (2021: £22.3m)

Underlying* profit before tax, which is management's primary measure of Group profitability, was £27.1m (2021: £24.3m). The statutory profit before tax, which includes the Group's non-underlying items, was £21.0m (2021: £21.1m).

Share of results of JVs and associates

The share of results from JSSL was a profit of £0.8m (2021: loss of £0.7m), reflecting revenue growth and margin improvement following the disruptive impact of COVID-19 on JSSL's prior year trading and profitability. Our specialist cold rolled steel business, CMF, contributed a share of profit of £0.5m (2021: £0.4m), the prior period for CMF also having been impacted by COVID-19. The CMF business is currently in the process of expanding its production operations in Wales and has continued to develop its product range, including modular steel products, to drive organic revenue growth.



Non-underlying items

Non-underlying items have been separately identified as a result of their magnitude, incidence or unpredictable nature. Their separate identification results in the calculation of an underlying profit measure in the same way as it is presented and reviewed by management. Non-underlying items for the year of £6.1m (2021: £3.2m) includes the amortisation of acquired intangible assets of £5.2m (2021: £2.8m), and other acquisition-related expenses of £0.7m (2021: £0.4m).

The amortisation of acquired intangible assets represents the amortisation of customer relationships, order books and brand name, which were identified on the acquisitions of Harry Peers and DAM Structures. These assets are being amortised over a period of 12 months to five years. Acquisition-related expenses include movements in the valuation of the contingent consideration for the DAM Structure acquisition which is payable over a five-year period.

Taxation

The Group's underlying[1] taxable profits of £25.8m (2021: £24.7m) resulted in an underlying tax charge of £4.8m (2021: £4.6m), which represents an effective tax rate of 18.6 per cent (2021: 18.5 per cent). The total tax charge of £5.4m (2021: £3.8m) also includes adjustments relating to prior years and the deferred tax impact of the future increase in UK corporation tax from 19 per cent to 25 per cent which, in line with the Group's policy, are categorised as non-underlying and included in non-underlying items.

Earnings per share

Underlying basic earnings per share increased by 12 per cent to 7.2p (2021: 6.4p) based on the underlying profit after tax of £22.3m (2021: £19.8m) and the weighted average number of shares in issue of 308.8m (2021: 307.3m). Basic earnings per share, which is based on the statutory profit after tax, was 5.1p (2021: 5.6p), reflecting the increased underlying profit after tax offset by an increase in non-underlying costs. Diluted earnings per share, which includes the effect of the Group's performance share plan, was 5.1p (2021: 5.6p).

Dividend and capital structure

The Group has a progressive dividend policy. Funding flexibility is maintained to ensure there are sufficient cash resources to fund the Group's requirements.

In this context, the board has established the following clear priorities for the use of cash:

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

The board considers the dividend to be a very important component of shareholder returns. Accordingly, based on the outlook for the year ahead and our strong financial position, and despite the current uncertain macro-economic backdrop, the board is recommending a final dividend of 1.9p per share (2021: 1.8p), payable on 14 October to shareholders on the register at the close of business on 9 September. This together with the interim dividend of 1.2p per share (2021: 1.1p), will result in a total dividend of 3.1p per share (2021: 2.9p).

Goodwill and intangible assets

Goodwill was £82.2m at 26 March 2022 (2021: £85.8m), the movement reflecting the finalisation of goodwill and intangible assets arising on the DAM Structures acquisition. In accordance with IFRS, an annual impairment review has been performed. No impairment was required either during the year ended 26 March 2022 or the year ended 27 March 2021. Other intangible assets were £10.3m (2021: £9.6m). This largely represents the net book value of the intangible assets (customer relationships, order books and brand name) identified on the acquisitions of Harry Peers and DAM Structures.

[1] See note 32 for APM definitions.

OUR FINANCIAL PERFORMANCE

Property, plant and equipment
The Group has property, plant and equipment of £91.4m (2021: £91.7m). Capital expenditure of £7.4m (2021: £6.6m) represents the continuation of the Group's capital investment programme. This predominantly consisted of site improvements at Ballinamallard, the purchase of additional land at Dalton to future-proof the site, new and upgraded equipment for our fabrication lines and the acquisition of cranes to support our site operations. Depreciation in the year was £6.9m (2021: £6.0m), of which £1.7m (2021: £1.6m) relates to right-of-use assets under IFRS 16.

Joint ventures
The carrying value of our investment in joint ventures and associates was £30.1m (2021: £28.8m), which consists of the investment in India of £18.4m (2021: £17.6m) and in CMF of £11.7m (2021: £11.2m).

Pensions
The Group's defined benefit pension liability at 26 March 2022 was £14.4m, a decrease of £8.0m from the 2021 position of £22.4m. The deficit has reduced due to a higher discount rate, reflecting the significant increase in bond yields, and employer deficit contributions over the year. This has been offset to a lesser extent by higher expectations of long-term future inflation. 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. For 2022, ROCE was 13.5 per cent (2021: 13.6 per cent), which exceeds the Group's minimum threshold of 10 per cent through the economic cycle (see note 32).

Cash flow

	2022	2021
Operating cash flow (before working capital movements)	**32.6**	30.2
Cash (used in)/generated from operations	**(1.9)**	30.0
Operating cash conversion	**(25%)**	93%
Cash balances	**(4.0)**	25.0
Net (debt)/funds* (pre-IFRS 16 basis)	**(18.4)**	4.4
Net (debt)/funds	**(30.1)**	(6.7)

* 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. See note 32 for APM definitions.

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 year with net debt (on a pre-IFRS 16 basis) of £18.4m (2021: net funds £4.4m). Net debt at 26 March 2022 included an overdraft of £4.0m (2021 cash of £25.0m) and the outstanding term loans of £14.9m for acquisitions (2021: £20.7m).

Operating cash flow for the year before working capital movements was £32.6m (2021: £30.2m). Net working capital has increased by £34.5m during the year mainly reflecting the expected unwinding of the unusually low working capital position (two per cent of revenue) at the start of the year, together with the impact of steel and other input price rises, and higher steel purchases to meet production requirements in early 2023 when executing our record order book. Furthermore, on 1 March 2021, the UK's new VAT Domestic Reverse Charge regulations for construction services came into force, further increasing existing cash flow pressures on many businesses in our sector, and this was also a contributory factor in the Group's higher working capital position at the year-end.

Year-end working capital represented approximately ten per cent of revenue (2021: two per cent). Although this is higher than our well-established target range of four to six per cent, we expect an improvement in working capital in 2023, as some of the 2022 working capital pressures abate. Similarly, although we have missed our operating cash conversion target of 85 per cent in 2022, we expect to exceed this target once again in 2023.

Prompt Payment Code

We believe in treating our suppliers and subcontractors fairly and with respect. Our three main businesses are all signatories of the Prompt Payment Code ('PPC'). Our relationships with our supply chain partners are of strategic importance and key to the Group's success, and payment practices remained a major area of focus throughout the year. However, the business operates in a sector where supply chains and contractual terms are complex, and prompt payment is often materially impacted by resolution of disputes and alignment to agreed contractual terms. For the PPC reporting period of 1 October 2021 to 26 March 2022, all the Group's businesses that are signatories of the PPC, reported that between 90 and 95 per cent of invoices were paid within 60 days.

From 1 July 2021 the PPC introduced the requirement to pay 95 per cent of invoices to businesses with fewer than 50 employees within 30 days instead of 60 days. In the second half of 2022, the Group paid over 80 per cent of its suppliers identified with fewer than 50 employees within the 30-day timeframe. Whilst we acknowledge that not all businesses with fewer than 50 employees have the latest systems to ensure prompt payment, the Group continues to take the appropriate action to further streamline its systems and processes, and work with them, to try to meet the timeframe set out by the Code.

Bank facilities committed until 2026

In December 2021, the Group completed a refinancing of its revolving credit facility ('RCF'). The new £50m RCF provides additional liquidity above the £25m RCF which it replaced and extends the term of the facility which now matures in December 2026. The new facility provides the Group with enhanced liquidity and long-term financing to help support its growth strategy.

The RCF remains subject to three financial covenants, namely interest cover, net debt to EBITDA and debt service (cash flow) cover. The Group operated well within these covenant limits throughout the year ended 26 March 2022.

Going concern

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

The following factors were considered as relevant:

- The current market conditions and the impact of these (including the potential future impact of the current inflationary market conditions and similar other significant downside risks linked to our principal risks) on the Group's profits and cash flows,
- The UK and Europe order book and the pipeline of potential future orders,
- The Group's operational improvement programme, which has delivered tangible benefits in 2022 and is expected to continue doing so in 2023 and for the period under forecast, and
- The Group's cash position and its bank finance facilities (see note 22), which are committed until December 2026, including both the level of those facilities and the three financial covenants attached to them (interest cover (>4x), net debt to EBITDA (<3.0x) and cash flow cover (<1x)).

In the previous year, the Group continued to trade safely and profitably with positive operating cash flows whilst operating under various COVID-19 restrictions. The directors expect the Group to remain similarly resilient over the forecast period. The directors have reviewed the Group's forecasts and projections for 2023 and for at least 12 months from the date of approval of the financial statements, including sensitivity analysis to assess the Group's resilience to potential adverse outcomes including a highly pessimistic 'severe but plausible' scenario. This scenario is based on the combined impact of securing no further orders and further significant inflationary pressures for the entirety of the going concern period. Given the strong previous performance of the Group, this scenario is only being modelled to stress test our strong financial position and demonstrates the existence of considerable headroom in the Group's covenants and borrowing facilities in this 'severe but plausible' scenario.

Having also made appropriate enquiries, the directors consider it reasonable to assume that the Group has adequate resources to be able to operate within the terms and conditions of its financing facilities 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.

Adam Semple
Group finance director

15 June 2022

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 prospects and the financial viability of the Group over a three-year period. The directors have concluded that 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 the assessment.

Assessment period

This viability assessment has been made using a three-year period ending on 29 March 2025 which is in line with that used for the Group's annual strategic planning process. This gives good visibility of future work as the majority of the Group's workload falls within three years and enables more accurate forecasting as the Group's most significant construction contracts follow an execution period of which is normally less than three years. In making their assessment, the directors took account of the Group's strategy, strong financial position, forward order book of £486m, encouraging pipeline of opportunities, recent and planned investments and main committed bank facilities (which matures in December 2026).

Risk assessment

The directors have assessed the Group's viability in conjunction with their assessment of going concern. For their assessment of going concern, which covers a period of at least 12 months from the date of signing the financial statements, we have modelled a 'base case' scenario, which captures the Group's budgeted position, and a highly pessimistic 'severe but plausible' scenario, being the combined impact on the 'base case' of securing no further orders for the next 12 months, the potential future impact of the current inflationary market conditions and other downside scenarios. Given the continued strong performance of the Group in FY22, in the face of some challenging market conditions, this downside scenario is only being modelled to 'stress test' our strong financial position and demonstrate the considerable headroom that the Group has in its covenants and borrowing facilities.

The directors have also assessed the potential financial and operational impact throughout the viability assessment period of other downside scenarios resulting from the crystallisation of one or more of the principal risks described in the annual report (see pages 86 to 98) that are relevant to the industry sector in which the Group operates. The assessed risks, for which the impacts were applied, include supply chain risks (and the reliance on key suppliers), changes in the commercial and market environment, mispricing a contract (at tender), the failure to mitigate onerous contract terms, business disruption caused by a cyber-attack or climate change, and the impact of a serious health and safety incident. The impact of these were modelled through a reduction in margin of 25 per cent, a reduction in revenue of 25 per cent, a deterioration in working capital (the extension of customer payment terms by one month/retraction of supplier payments terms by one month), a period of business interruption (two months with no factory production or site activity) and a significant one-off event resulting in a cost to the Group of £20m. The range of scenarios tested was considered in detail by the directors, taking account of the probability of occurrence and the effectiveness of likely mitigation actions, including the reduction of any non-essential capital expenditure and operating expenditure, bonuses and dividend payments.

There are no individual risks which are considered to materially impact the Group's viability, and our assessment included modelling the financial impact of a 'severe but plausible' scenario (incorporating the 'severe but plausible' scenario performed for going concern purposes), where the impact of certain risks and uncertainties highlighted above were applied in combination. 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 RESPONSIBLE AND SUSTAINABLE BUSINESS

A MESSAGE FROM THE CEO

WE SUPPORT THE PARIS AGREEMENT AND HAVE COMMITTED TO REDUCING OUR SCOPE 1 AND 2 GREENHOUSE GAS EMISSIONS BY 25 PER CENT AGAINST OUR 2018 BASELINE BY 2025.

ALAN DUNSMORE
CHIEF EXECUTIVE OFFICER

We create spaces that help communities thrive, so we recognise that any decisions we make can have a significant impact on the environment and people's lives. How we conduct ourselves is important and we take our responsibilities very seriously.

With that in mind, we're committed to best practice in all our sustainability activities, and we show leadership in delivering a sustainability programme which considers whole life impact, taking us beyond compliance and ensuring continuous improvements. At Severfield, building a responsible and sustainable business means conducting our business ethically, with openness, honesty and integrity.

We recognise the scale of the challenge and the wide-range of changes required to meet the UK net zero carbon target by 2050, and acknowledge that steel can make a significant contribution to the decarbonisation of the global economy. To solidify our commitment to reducing carbon emissions, we have signed up to SteelZero, a global initiative to speed up the transition to a net zero steel industry. Targeting net zero steel from the demand side of the supply chain makes this the first initiative of its kind, with the potential for it to have significant impact on investment, policy, manufacturing, and production in the construction sector.

In modern economies, steel is already the material of choice in many construction projects due to its versatility and high recyclability, but we can and must go further as steel, and the construction industry, can play a significant role not only in facilitating the UK government's plan to transform infrastructure to meet the 2050 net zero emissions target (including HS2, wind power, new nuclear, rail electrification, energy efficient buildings), but to help drive economic recovery and levelling up across the country.

Alan Dunsmore
Chief executive officer

15 June 2022

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

OUR APPROACH TO SUSTAINABILITY

Our Group's purpose is to develop better ways to build, for a world of changing demands. To achieve this, we are committed to motivating and enabling our people and our supply chain to deliver high quality, innovative buildings in a sustainable and efficient way. During the year, we have continued to develop our sustainability framework and embed sustainability into our purpose and corporate strategy to help us achieve our vision of being world class leaders in structural steel.

Our sustainability framework outlines why we prioritise different elements of our work encapsulated by our four sustainability pillars 'Planet', 'People', 'Prosperity' and 'Principles of governance', each informed by our people, customers, suppliers and stakeholders.

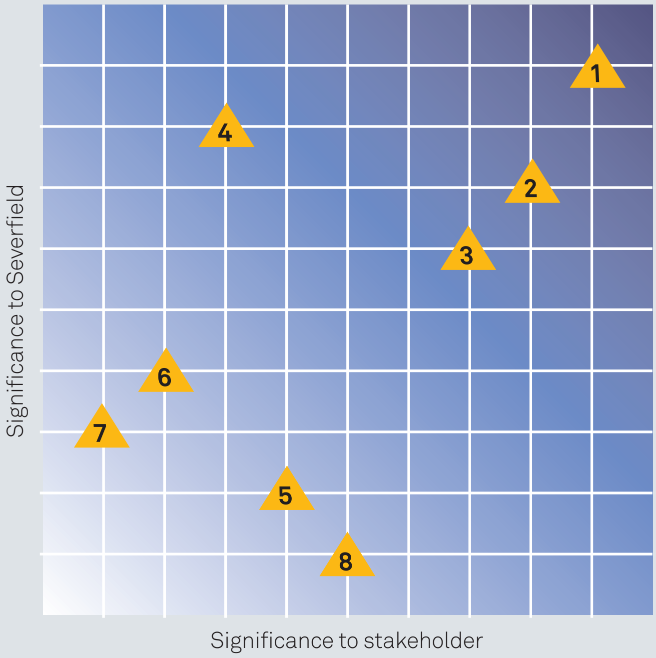
In line with the Global Reporting Initiative ('GRI') Standards, our sustainability framework and reporting are structured around our most material sustainability issues. Alongside our existing risk assessment process and stakeholder engagement activity, we regularly undertake a materiality assessment in order to identify environmental, social and governance-related issues that may have a significant impact on the Group's business performance or substantively influence the decisions of our stakeholders. Using the materiality matrix in this process enables the consistent assessment and prioritisation of risks identified across the business.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

OUR APPROACH TO SUSTAINABILITY

Our ongoing dialogue with our stakeholders, both internal and external, identified the following eight areas of importance, which have remained unchanged from our initial assessment in 2021:

Materiality matrix



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

Smarter, Safer, more Sustainable

The four pillars of our sustainability framework are supported by our ongoing 'Smarter, Safer, more Sustainable' business improvement programme. This enables us to operate as a responsible, sustainable business for the benefit of all our stakeholders. We believe that investing in improvement projects and in training and technology to empower our people to work in a 'Smarter, Safer, more Sustainable' way will be fundamental to achieving our long-term strategic objectives.

Our responsible and sustainable business priorities are aligned to those of our stakeholders (see page 38 to 39) and driven by our CEO, Alan Dunsmore, who has overall responsibility for climate change related matters at board level, and he also chairs the Group's sustainability committee (see page 62 for further details).

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

CLIMATE-RELATED FINANCIAL DISCLOSURES

The board recognises the systematic threat posed by climate change and the need for urgent mitigating action and is committed to addressing climate-related risks and reducing our environmental impact and carbon emissions.

Task Force on Climate-related Financial Disclosures ('TCFD')

The TCFD aims to improve the reporting and transparency of climate-related risks and opportunities and its recommendations encourage companies to disclose information on the financial implications of climate change to their business and set out how these risks are managed.

We report on sustainability and climate-related matters throughout our 2022 annual report and accounts, continually striving to improve the transparency of our reporting. This includes evolving our reporting on climate-related disclosures in line with the TCFD recommendations. This year we are formally reporting on our alignment with these recommendations, which are structured around four thematic areas:

- Governance
- Strategy
- Risk management, and
- Metrics and targets.

The information set out on pages 56 to 85 in our 2022 annual report and accounts aims to provide key climate-related information and cross references to where additional information can be found. We believe we are closely aligned with the TCFD recommendations save for one exception, which is that we have not yet undertaken a detailed quantitative climate scenario analysis. We plan to undertake a more quantitative scenario analysis in 2023 for disclosure in next year's annual report.

We are committed to the recommendations of the TCFD, to provide our stakeholders with transparent and useful information on the Group's climate-related risks and opportunities and to help communicate our strategy, sustainability framework, targets and our progress against these.

We have qualitatively assessed the impact of climate risk on the Group's balance sheet, including the impact on the measurement of financial instruments, the Group's owned land and buildings and the Group's going concern and long-term viability, and have concluded that there is no material impact on the financial statements for the year ended 26 March 2022.

Some elements of our TCFD reporting are addressed elsewhere in our annual report and accounts. The table below outlines where this information can be found.

Thematic area	TCFD recommendation	Section name	Page reference
Governance	Board oversight	Corporate governance report Board at a glance	110 to 121 102 to 103
	Management role	Building a responsible and sustainable business	63 to 85
Strategy	Risks and opportunities	How we manage risk	86 to 98
	Impact on organisation	Building a responsible and sustainable business	63 to 85
	Resilience of strategy		
Risk management	Risk identification and assessment process	How we manage risk	86 to 98
	Risk management process		
	Integration into overall risk management		
Metrics and targets	Climate-related metrics	Building a responsible and sustainable business	63 to 85
	Scope 1, 2 and 3 GHG emissions		
	Climate-related targets		

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

OUR TCFD ROADMAP TO FULL DISCLOSURE

2021

We established our sustainability working group to oversee strategy implementation and review progress against our strategic objectives.

Our 2021 annual report included numerous sustainability disclosures, many of which were in line with TCFD recommendations and were reported earlier than the FCA's Listing Rules reporting requirements.

2022

We engaged external consultants to undertake a gap analysis of our current climate-related disclosures and planned activities against the TCFD framework.

In June, we issued our annual detailed Carbon Disclosure Project ('CDP') report, which can be found on our website at www.severfield.com.

Our 2022 annual report confirms that our disclosures are compliant with the TCFD's recommendations with one exception (detailed climate scenario analysis) and our 2022 reporting continues to improve our climate-related disclosures by including quantitative information on our scope 3 emissions.

2023

Our 2023 annual report will include a comprehensive update on our quantitative climate scenario analysis, in line with the TCFD recommendations.

We will disclose further details of our ongoing assessment of the financial impact of an increase in global temperatures by two degrees Celsius and other varying temperatures, the material risks modelled, approach taken, and high-level assumptions applied.

Having started the process of setting new long-term, science-based net zero carbon targets for the Group, we are on schedule to submit these for validation by the SBTi during 2023.

2024

We intend our 2024 annual report to further improve on the information contained in the 2023 annual report.

We will complete our quantitative climate scenario analysis and report on how the results will help the Group assess and improve our climate resilience.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

GOVERNANCE

Board oversight on climate-related risks and opportunities

Our chief executive officer, Alan Dunsmore, has overall responsibility for climate-related matters at board level and chairs our sustainability committee and risk committee, ensuring continuity and accountability. Alan is actively engaged and takes responsibility for the Group's strategic direction and progress on climate-related issues.

The board possesses significant climate-related experience, as summarised on the board skills matrix on page 103 and has a sound basis from which to consider the risks and opportunities facing the business as a result of climate change. Our board skills matrix is also used for succession planning purposes to ensure there are no skills gaps.

The board is updated on climate change matters every quarter and received briefings throughout the year on climate-related matters, and we plan to arrange further briefings on material ESG matters throughout 2023 from subject matter experts.

The sustainability committee, mainly consisting of members of the executive committee, is responsible on behalf of the board for considering the impact of climate change on the business. The committee regularly updates the board on the Group's sustainability strategy and progress against our targets, in addition to the quarterly sustainability presentation to the board by the Group SHE director, which includes a dashboard on greenhouse gas emissions.

The board gives full and close consideration to ESG factors when assessing the impact of the decisions it makes. Examples of strategic decisions made in recent years by the board and board committees having consideration of the Group's sustainability strategy and climate-related impact include:

- Signing up to SteelZero – a global initiative to speed up the transition to a net zero steel industry, which is directly linked to the climate-related risk of steel becoming unsustainable.
- The Group has committed to being carbon neutral, which is directly linked to the identified risks of failing to meet emissions targets or failing to comply with legislation or expectations.
- During the year, the sustainability committee reviewed and confirmed the Group's net zero roadmap, to be approved by the board in early 2023.
- The Group also revised its strategic plan, which specifically included how the Group is going to invest in climate-related research and development to identify new engineering techniques. This is also directly linked to the identified risks of failing to meet emissions targets or failing to comply with legislation or expectations.

Management's role in assessing and managing climate-related risks and opportunities

Board of directors
Responsible for the Group sustainability strategy

↑

Executive committee and Risk committee
Reports to the board on the progress and success of the sustainability committee

↑

Sustainability committee
Oversees strategy implementation and reviews progress against our strategic objectives and reports to the executive committee and the board

← **Sustainability risk review committee**
Exercises oversight over climate-related risks and the Group's approach to mitigating our impact on the environment

↑

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

↑

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

The Group board, through the executive committee and risk committee (both chaired by the CEO), has delegated oversight of the management of climate-related risks and opportunities to the sustainability committee and sustainability risk review committee.

Members of the Group's sustainability committee include the chief executive officer, chief operating officer, Group finance director, Group legal director and Company secretary, Group SHE director, Group HR director and the Group's sustainability manager. This ensures that key management across all the business disciplines have an aligned approach to climate-related matters to ensure that the Group's overall sustainability strategy is successfully delivered.

Our Group legal director and Company secretary, Mark Sanderson, is a member of the executive committee and also chairs the sustainability risk review committee, through which he is responsible for ensuring that an appropriate strategy is in place to understand, identify, monitor and control risks from climate change in line with the Group's risk appetite parameters.

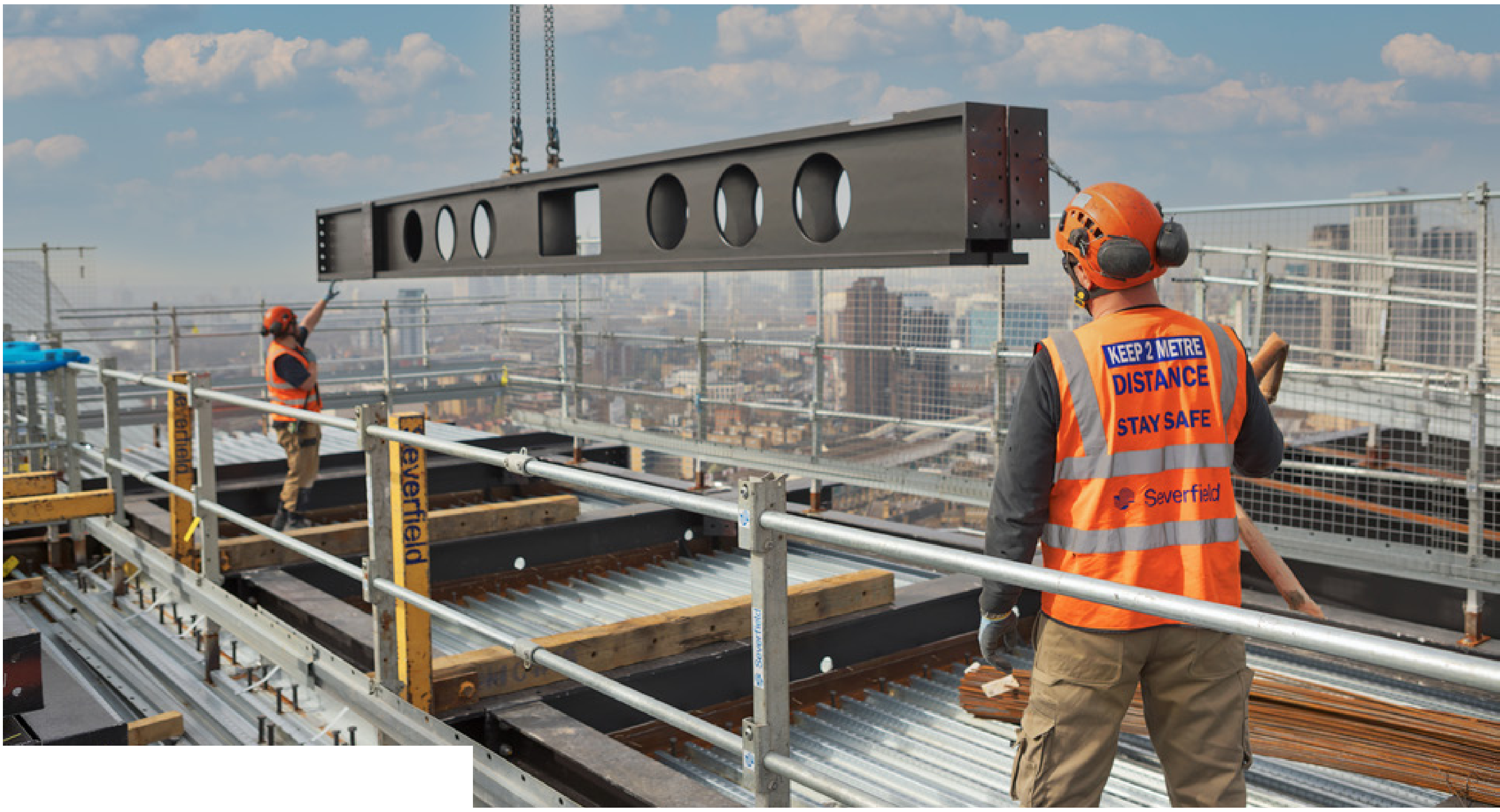
Business unit management teams are responsible for managing climate-related risks and opportunities on a day-to-day basis and delivering on the Group's net zero roadmap and sustainability strategy.

The sustainability committee meets every two months and engages with a wide range of senior managers and colleagues from across the Group to oversee the day-to-day implementation of our sustainability strategy and report on the progress of the Group to the executive committee, who ultimately report to the board.

The chief executive officer, chief operating officer and Group finance director are all members of the sustainability committee and provide the board with regular written and verbal updates on climate-related matters.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

STRATEGY



Climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

As part of our business processes, we continually identify climate-related risks and opportunities, assessing their likelihood and quantifying their potential financial and non-financial impacts and time horizon. Those risks with higher financial impact are prioritised for action by the board. We consider climate-related issues within the time horizons used in our risk management process:

Short-term	< 5 years	Aligns to how we assess the Group's principal risks and viability statement.
Medium-term	5 – 10 years	Aligns to longer-term projects with risks driven by government policy, infrastructure needs and market conditions.
Long-term	> 10 years	Factors that could impact the Group's ability to achieve its strategic goals.

In line with our risk management process and assessment of the Group's principal risks, only high and medium risks are considered sufficiently significant for disclosure in the annual report. The scoring of each risk 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).

Climate-related transition and physical risks have been assessed as an overall low risk to the Group, but we do believe that the risk of being able to demonstrate that we are a 'sustainable and responsible business' is a medium risk in the short term and is therefore considered a principal risk.

Our approach to climate risk

During the year, we have continued to develop our sustainability risk register capturing climate and other sustainability-related risks to ensure that material risks are identified and managed effectively. Climate change can have an impact across the Group's risk environment through both transition and physical channels. The sustainability risk committee considers transition risks to arise from the Group's transition to a net zero steel industry, such as through regulatory, legislative or technological changes. Physical risks are considered to arise from increasing severity or frequency of extreme weather events, such as flooding and cyclones.

We continually identify climate-related risks, assessing their likelihood and quantifying their potential financial and non-financial impacts and time horizon. Those risks with higher financial impact are prioritised for action by the board.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

STRATEGY

The tables below summarise the key climate-related risks (transition and physical) and opportunities identified as part of our sustainability risk review process that are considered to have the greatest impact on the business in the short, medium and long term.

Climate-related risks

Climate risk	Classification	Risk description	Potential impacts to the business	Time horizon
Transition	Policy and legal	Failure to comply with climate-related legislation by not meeting targets or reporting requirements.	• Loss of position as market leader and reputational damage. • Loss of opportunities within our market sectors. • Possible fines and penalties imposed.	Short-term (<5 years)
	Reputation	Failure to comply with climate-related stakeholder expectations leading to loss of position as market leader and lost opportunities.	• Loss of position as market leader and reputational damage. • Loss of opportunities within our market sectors. • Negative share price impact.	Short-term (<5 years)
	Policy and legal	Failure to meet emissions reduction targets or increased costs due to offset costs.	• Possible fines and penalties imposed, including carbon taxes. • Carbon offsetting costs could increase if the Group needs to purchase additional offsets where we fail to reduce our GHG emissions. • Offsetting prices will increase as demand for these initiatives will increase.	Medium-term (5-10 years)
	Market	Steel becomes unsustainable due to over demand for low carbon steel making it unaffordable and projects being cancelled.	• Shortage of material availability resulting in project delays or cancellations. • Pressure from customers to reduce emissions of materials as well as emissions associated with distribution and construction activities • More stringent regulation for construction materials and products. • Increased R&D, design, IT and training costs associated with developing new technology to create innovative projects.	Medium-term (5-10 years)
Physical	Acute	Operational disruption/ reduced capacity due to extreme weather event, e.g. flooding or wind damage.	• Project delays incurred due to unsafe working conditions on site and disruption to deliveries of materials to our factories. • Damage to construction sites and equipment. • Design and procurement challenges to deliver a project to withstand extreme weather effects. • Increasing difficulty in obtaining insurance in locations of extreme weather conditions.	Long-term (>10 years)
	Chronic	Operational disruption/ reduced capacity due to increased frequency of extreme weather, e.g. drought.	• Project delays incurred due to unsafe working conditions on site and disruption to deliveries of materials to our factories. • Damage to construction sites and equipment. • Design and procurement challenges to deliver a project to withstand extreme weather effects. • Increasing difficulty in obtaining insurance in locations of extreme weather conditions.	Long-term (>10 years)

Assessment of likelihood	Assessment of financial impact	Current/future mitigation
Unlikely	Low	• Strong controls and governance on climate-related reporting to the board. • Continual training and development on climate change matters to stay ahead of any legislative changes. • Engage external specialists, where appropriate, to provide advice on current sustainability risk management processes and upcoming or potential changes to climate-related legislation.
Possible	Moderate	• Regular engagement with all stakeholders, promoting open and transparent communication. • Strong controls and governance on climate-related reporting to the board.
Unlikely	Low	• Our Group's net zero roadmap and sustainability framework will be embedded in our business processes and procedures to ensure our ambition is achieved. • Regular monitoring and reporting of GHG to the board.
Unlikely	Significant	• Continue to maintain our strong relationships with our supply chain providers. • We have discussed with our key suppliers their own strategy to become net zero and undertaken research into low carbon alternatives. • We have signed up to SteelZero, demonstrating that we aim to procure 100 per cent net zero steel by 2050, with specific interim targets set for 2030. • Provision of training for low-carbon design and new technologies. • Engaging in discussions on climate-related matters early on in the project life cycle so we can ensure our customers' expectations are fully understood and achieved. • Perform regular material price sensitivity assessments and consider contingency plans for procurement.
Possible	Low	• Monitoring of weather forecasts to ensure employee safety and early steps taken to mitigate potential disruption to deliveries. • Detailed risk reviews of project sites in areas of extreme weather or located close to waterways. • Review of insurance policies and arrangements. • Perform more detailed quantitative scenario analysis in 2023 to demonstrate the Group's resilience to climate-related risks.
Unlikely	Negligible	• Monitoring of weather forecasts to ensure employee safety and early steps taken to mitigate potential disruption to deliveries. • Detailed risk reviews of project sites in areas of extreme weather or located close to waterways. • Review of insurance policies and arrangements. • Perform more detailed quantitative scenario analysis in 2023 to demonstrate the Group's resilience to climate-related risks.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

STRATEGY

Climate-related opportunities

Opportunity	Classification	Description	Strategy to realise opportunity	Time horizon
Green revenue streams	Market	Identify new and increase existing revenue streams from green infrastructure projects. The Group is well placed to capitalise on the anticipated increase in demand for renewable energy infrastructure, including battery plants and wind farms to facilitate the UK's switch to electric cars and renewable energy. We expect increased demand for innovative steel solutions that enable the construction of urban and public transport systems such as people movers and bridges. We expect to see further projects aimed at carbon reduction in transport, such as the decarbonisation of the UK rail network.	We will continue to work with customers and contractors to realise innovative ways of construction and maintain our position as market leader for structural steel. Building and maintaining relationships, enhanced collaboration and dialogue with new and existing potential customers will allow us to continue to be a first choice contractor for new and innovative projects.	Long-term (>10 years)
Renewable energy	Energy source	Continuing the transition from using gas oil and natural gas to renewable low-carbon energy sources could give rise to operational and supply chain efficiencies and cost reductions.	We have made good progress to date, increasing the procurement of renewable electricity for 89 per cent of our facilities. Continue to switch the one remaining facility to green electricity within 2023 and research the availability of other renewable energy sources for heating and power.	Short-term (<5 years)
Research and development	Products and services	With the increasing focus on climate-related matters as the UK, and the world, accelerates its efforts to decarbonise in line with the Paris Agreement, we expect to see a change in the requirements of our customers to build projects that reduce their carbon emissions. Research and development into products and processes will help us to provide innovative solutions that meet the complex and changing needs of our customers.	One of our strategic objectives, supported by our business improvement initiatives, is to continue to invest in climate-related research and development to identify new engineering techniques, innovative technologies and source steel with low embodied carbon to assist our customers to minimise the life cycle carbon emissions of their projects.	Short-term (<5 years)

Scenario analysis progress

During the year, we have performed a high-level qualitative assessment of the likelihood and severity to the business of all material climate-related risks and opportunities in different climate-related scenarios, concentrating in particular on flood risk. We have not noted any changes needed to our business model in response to the identified material climate-related risks and opportunities.

In a maximum +1.5°C scenario (aligned to the Paris Agreement), it is assumed that the physical risks of climate change do not significantly differ from those we are currently experiencing, including occasional localised flash flooding. Therefore, in this scenario transition risks are expected to pose the biggest cost to the Group. Whereas, in a +4°C (and other varying temperatures) scenario, it is assumed that the physical risks of extreme weather events do occur. In this scenario, it is anticipated that the Group is less impacted by transition risks and more impacted by physical risks resulting in supply and operational disruptions at two of our facilities (Dalton and Enniskillen), which are located near rivers with the surrounding areas and access routes being at risk of flooding.

We are committed to performing a more detailed quantitative scenario analysis in 2023, for disclosure in next year's annual report, and we continually reassess our considerations around materiality as we further develop our understanding of climate-related scenario analysis.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

RISK MANAGEMENT

Processes for identifying and assessing climate-related risks.

The Group's process of identifying and assessing climate-related risks and opportunities is embedded in the Group's existing risk management process and is fully aligned with our three lines of defence model (see pages 86 to 89 for more detail).

Our sustainability risk review committee, with input from senior management from all key disciplines of the business and members of the sustainability committee, continued to develop and review our sustainability risk register during the year, capturing climate and other sustainability-related risks to ensure that material risks are identified and managed effectively.

We consider climate change within the principal risk of being able to demonstrate that we are a 'sustainable and responsible business' and consider this to be a medium risk in the short term. We define principal risks as those with medium/high risk rating, taking 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).

Processes for managing climate-related risks.

Our process for mitigating, accepting and controlling principal risks, which also includes climate-related risks, is set out on pages 90 to 98. We prioritise principal risks through our Group risk register and risk heat map. The impact-likelihood rating, which is evaluated during risk identification, is our primary metric for prioritising risks.

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, this includes specific consideration of climate-related risks.

Metrics and targets

Full details of climate-related metrics and targets performance disclosures, including GHG emissions, can be found throughout the 'Building a responsible and sustainable business' section on pages 70 to 85.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

Our sustainability framework also supports the United Nations Sustainable Development Goals ('UN SDGs'). The table below illustrates our key achievements in the year against our four sustainability pillars and our progress against the metrics and targets we use to measure our performance in each area, as well as identifying the seven UN SDGs where the Group can have the biggest impact:

Pillar	Activities/KPI	2022 performance
Planet Continue to improve the environmental impact of our processes and projects. Support sustainable construction through circularity, strive for net zero and enable efficient business practices. 7 AFFORDABLE AND CLEAN ENERGY · 11 SUSTAINABLE CITIES AND COMMUNITIES · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 13 CLIMATE ACTION Read more on pages 72 to 77	• GHG intensity	18% reduction in our scope 1 and 2 GHG emissions from 2018 (our base year) using a market-based approach. Slight 2% increase from 2021 reflecting the full year impact of DAM Structures.
	• CDP global evaluation rating	Improved our CDP rating to A- from a B rating. Maintained our CDP supplier engagement leader rating of A.
	• Other industry accreditations achieved	Improved our BES 6001 rating to 'very good' Listed as the top UK construction company in 2022 in the Financial Times - Europe's Climate Leaders index.
	• Green electricity usage	16% improvement in 2022 to 89% green electricity used in our wholly owned factories (2021: 73%).
People Support our teams to be diverse, engaged, motivated, and competent. Engage positively with projects and the local communities in which we work. 8 DECENT WORK AND ECONOMIC GROWTH Read more on pages 78 to 81	• Gender pay equality	0.94 male/female normalised hourly rate ratio.
	• Diversity and inclusion %	9% of our workforce are female (2021: 10%) and women represent 3% of construction roles across the Group (2021: 4%).
	• Accident frequency rate	11% improvement in 2022 to 0.16 (2021: 0.18).
	• Incident frequency rate	11% improvement in 2022 to 1.32 (2021: 1.48).
	• Director safety visits undertaken	73% improvement in 2022 to 85 (2021: 49).
	• % of employees paid above Living Wage	98% of employees paid at or above the Real Living Wage.

Pillar	Activities/KPI	2022 performance
Prosperity Deliver sustainable, profitable growth whilst satisfying our ethical, legal and contractual obligations. Read more on page 82	• Economic value generated and distributed	11% improvement in 2022 to £403.6m (2021: £363.3m).
	• Economic value distributed	11% improvement in 2022 to £382.6m (2021: £343.2m).
	• Net investment	Stable net investment at 24%, consistent with the prior year (2021: 25%).
	• Supply chain due diligence	100% (2021: 97%) of suppliers subject to annual supply chain contractor due diligence reviews
	• Corporation taxes paid	£3.8m (2021: £4.6m) reflecting a 18% decrease due to increased tax credits and capital allowances.
	• Prompt payment reporting	93% (2021: 95%) of invoices paid within agreed payment terms in latest PPC reporting period for our signatory companies.
Principles of governance Show leadership in delivering a sustainability programme which considers whole life impact, taking us beyond compliance and ensuring continuous improvements. Read more on pages 84 to 85	• Board diversity	22% (2021: 22%) of the Group's board are women.
	• Board tenure	7.1 years (2021: 6.1 years) average tenure of our board of directors
	• Executive committee diversity	18% (2021: 17%) of the Group's board are women.
	• Coverage of certified environmental management systems	Group-wide 100% accreditation to ISO 14001:2015 (environmental management) (2021: 100%) and ISO 45001:2018 (occupational health and safety) (2021:100%)
	• Ethics training rate	10% improvement to 91% as percentage of colleagues receiving regular ethics training (2021: 81%)

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PLANET

Why is it important?

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

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

Management approach

The Group is fully committed to minimising its impact on climate change and mitigating the business risks that climate change presents and have developed plans to manage them, underpinned by the Group's ISO14001 certified environmental management system. We are also certified to BES 6001 Responsible Sourcing, increasing our rating within the period to 'very good'.

We have embedded our climate-related risks and opportunities into our strategy and business model. The progress we have already made against our ambitious interim sustainability target (to reduce our scope 1 and 2 GHG emissions by 25 per cent by 2025 against a 2018 baseline), and our long-term target (to reach net zero for our scope 1 and 2 carbon emissions by 2040), is set out below.

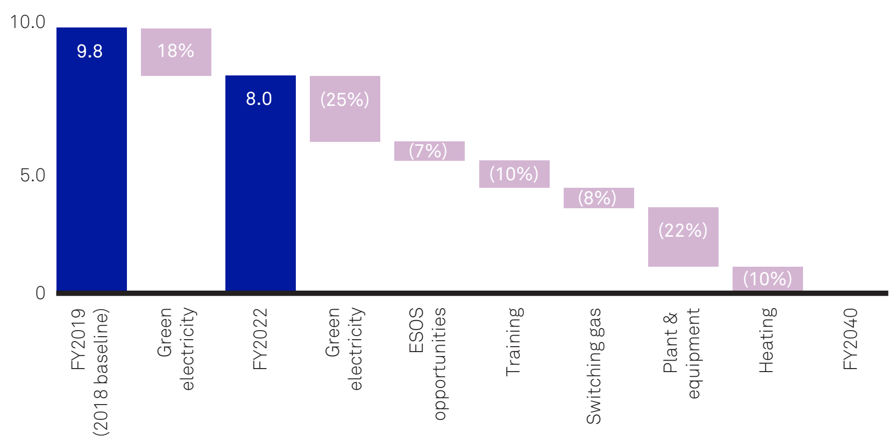
Our net zero roadmap

This year, we have focused our attention on developing our 'net zero roadmap', which focuses on the strategic priorities we believe are right for the steel industry, the world and for our Group. We engaged extensively with our customers, suppliers, employees and our shareholders to understand what the sustainability priorities of each stakeholder group are.

We are committed to our long-term target to achieve net zero emissions from our operations by 2040, and our roadmap includes a number of milestones along the way, including a short-term target to reduce scope 1 and 2 GHG emissions by 25 per cent by 2025, set against a 2018 baseline. These targets are based on the Paris Agreement, which seeks to limit global warming to below 1.5 degrees Celsius, compared to pre-industrial levels.

The main elements of our roadmap to achieve our targets are set out below. We acknowledge that sustainability matters and reporting are constantly evolving and, consequently, the Group's plan will also continuously develop over the forthcoming years, but our current roadmap is made up of a combination of actions to reduce our emissions and offsetting activities.

Our net zero roadmap identifies the main initiatives and technologies to be explored or implemented in order to achieve our 2040 ambition and illustrates that the Group is on track to achieve its interim target by 2025.



The Group's key initiatives include:

- Energy saving opportunities scheme ('ESOS') recommendations
  - Implement recommended projects around heating, compressed air, lighting, and machinery.
- Training
  - Bring awareness on climate-related risks and opportunities to the board.
  - Identify departments that are key to reducing both embodied and operational carbon across the Group and provide specialist training on carbon reduction initiatives.
  - Create and implement a business-wide training programme on our net zero strategy, including focus on behavioural change.
- Green electricity
  - To switch all wholly owned facilities on to green electricity contracts.
  - Continue to conduct energy audits to ensure reductions in usage are also in progress.
- Switching gas
  - Switch to green gas contracts at applicable locations.
  - Continue to monitor the potential to introduce gas at locations with no existing gas connection.
- Plant and equipment
  - Complete a gap analysis of plant across the Group.
  - Implement HVO roll-out across all applicable plant at both facilities and construction sites.
  - Consider alternative power sources, including hybrid and hydrogen, and new technologies in all future investment decisions.
- Heating
  - Investigate heat recovery using machinery already in situ.
  - Conduct a review of Group-wide heating systems, considering both fuel type and efficiency, and future technologies.

Our progress against our targets

During the year, the Group commenced the process to set science-based emissions reduction targets across our entire value chain. This process can take up to two years and means that we will develop longer-term commitments to make real reductions to our emissions, in line with the objectives of the Paris Agreement to limit global warming to well below two degrees Celsius above pre-industrial levels and pursue efforts to limit warming to 1.5 degrees Celsius. The Group will set verifiable science-based targets through the Science Based Targets initiative ('SBTi'), which independently assesses corporate emissions reduction targets in line with climate science.

Following the acquisitions of Severfield (Nuclear & Infrastructure) (formerly Harry Peers) in October 2019, and DAM Structures in February 2021, we are now able to include them in our carbon accounting. This will allow us to use the FY22 climate-related data to set a new baseline year for our science-based targets that is representative of our growing business. We are on schedule to submit these for validation by the SBTi during 2023.

In August 2021, the Group successfully achieved one of our short-term targets and were accredited as an operationally carbon neutral organisation by the Carbon Trust. We continue to maintain this accreditation, having been certified to the Achilles 'carbon reduce' standard in May 2022. The carbon reduce scheme, is the UK's only accredited GHG certification scheme and maintaining the accreditation is an important step in our sustainability journey towards net zero. Carbon neutral in this context means that we used carbon offsetting to eliminate the combined scope 1, scope 2 and operational scope 3 GHG emissions generated from our manufacturing facilities and construction sites. Projects that benefit from our carbon offsetting include solar power projects in India (chosen because of our existing manufacturing footprint in India), the manufacture of efficient cookstoves in Ghana (chosen because of the air quality issues in Ghana), and the regeneration of degraded lands in Chile (chosen because of the level of innovation associated with this project). In the future, as we reduce our own emissions, we will rely less on offsetting.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PLANET

CARBON OFFSETTING - GENERATING CLEAN ENERGY FOR THE GRID IN INDIA

Supporting the global transition to renewable energy

We selected this renewable energy offsetting project for its significant impact in reducing the carbon intensity of the energy grid in India, where our joint venture, JSSL, is based. This project is also aligned with the Group's strategic initiatives of building value in India and aligns to four of our key UN SDGs.

India has a rapidly growing population, which is increasing the demand for energy throughout the country. 75 per cent of India's energy needs are met through the burning of fossil fuels, meaning greenhouse gas emissions continue to rise.

Since 2013, India has accounted for more than half of the increase in global CO_2 output. In order to achieve the goals set out under the Paris Agreement it is vital to reverse this trend, and increase the prevalence of renewable energy generation in India.

The Indian Government has estimated that achieving its Paris emissions reduction pledge will require £2 trillion in carbon finance between now and 2030, from domestic and international sources.

In addition to this, we have made excellent progress in reducing scope 1 and 2 GHG emissions from our operations, with a total reduction of 18 per cent by 26 March 2022, using a market-based approach against a 2018 baseline. This result confirms that we are on track to achieving our interim target to reduce scope 1 and 2 GHG emissions by 25 per cent by 2025. To achieve this, we have:

- increased the procurement of renewable electricity for all our facilities. We have only one facility to transition to green electricity, which will be completed in 2023,
- continued to implement Lean ways of working in our construction sites, offices, and factories,
- started the transition to using hydrotreated vegetable oil ('HVO') across our facilities and construction sites,
- performed further research into the feasibility of installing renewable energy generation at our facilities,
- successfully centralised our Group procurement process, to consolidate and streamline our use of energy, materials and supplies,
- further developed our Group processes to consider energy efficiency and environmental criteria in design, procurement, investment and contracting decisions, including the introduction of an internal carbon calculator,
- monitored the levels of waste produced during our fabrication and site processes for the second year running, which will allow us to set targets in the next year in order to seek to reduce our waste output, and
- worked with a number of our key suppliers, engaging on our mutual sustainability strategies and delivering decision-enhancing, transparent carbon reporting on a range of our projects.

As required by Streamlined Energy and Carbon Reporting ('SECR'), we report on our CO_2e emissions in accordance with the internationally recognised Greenhouse Gas Protocol and our metrics include scope 1 and scope 2 emissions. During the year, our absolute Group scope 1 and 2 emissions have increased by eight per cent, using a location-based approach, whilst our intensity measurement has decreased by three per cent (21 per cent against a 2018 baseline of 33.5 CO_2e/£m revenue). The movement in the year reflects the full-year effect of the acquisition of DAM Structures.

	Tonnes of CO_2e	
GHG emissions from:	**2022**	2021
Scope 1 – combustion of fuel and operation of facilities	**7,359**	6,297
Scope 2 – electricity, heat, steam and cooling purchased for own use	**3,374**	3,598
Total CO_2e emissions (location-based)	**10,733**	9,895

Intensity measurement (location-based):	**2022**	2021
Absolute tonnes equivalent CO_2e per £m of revenue	**26.6**	27.5

Using a market-based approach, which includes the positive impact of switching to green energy, our absolute scope 1 and 2 GHG emissions have increased by two per cent from the previous year (18 per cent against a 2018 baseline) and our intensity measurement has reduced by 44 per cent against a 2018 baseline of 35.6 CO_2e/£m revenue to 19.9 CO_2e/£m revenue. For the year ended 26 March 2022, the Group's global GHG emissions, using a market-based approach, were as follows:

	Tonnes of CO_2e	
GHG emissions from:	**2022**	2021
Scope 1 – combustion of fuel and operation of facilities	**7,359**	6,297
Scope 2 – electricity, heat, steam and cooling purchased for own use	**671**	1,565
Total CO_2e emissions (market-based)	**8,030**	7,862

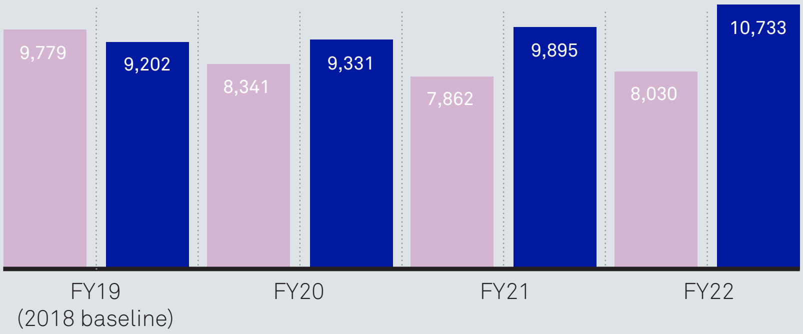
Intensity measurement (market-based):	**2022**	2021
Absolute tonnes equivalent CO_2e per £m of revenue	**19.9**	21.9

Our scope 1 and scope 2 GHG data is being independently verified by Achilles, in accordance with the international standard ISO 14064-1.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PLANET

Absolute emissions scope 1 and 2:



See tables at the bottom of page 75

Energy usage from:	2022	2021
Scope 1	**30,410**	25,452
Scope 2	**16,397**	15,431
Total MWh	**46,807**	40,883

The information in the table above represents absolute energy usage only, irrespective of whether this is from low carbon sources. To see how successful we have been in reducing our GHG emissions from energy, see page 70.

The Group has made good progress during the year in managing its energy, fuel consumption and emissions and we have been recognised as leaders in our sector for our work to date in reducing carbon emissions. For the second year running, we have been included in the Financial Times' listing of Europe's climate leaders, published in May 2022. This highlights the 400 companies that have achieved the greatest reduction in their scope 1 and 2 GHG emissions intensity over a five-year period between 2015 and 2020.

In the prior year, we committed to switch to 100 per cent green electricity across all the Group's wholly owned facilities and, during the year, we have achieved the level of 89 per cent (2021: 73 per cent), with only one facility remaining to switch in 2023.

In 2022, we improved our CDP index rating, achieving an 'A-'. This annual rating is based on CDP's evaluation of the Group's strategy, goals and actual emission reductions as well as transparency and verification of our reported data and assesses the completeness of the Group's measurement and management of our carbon footprint, our risk management process and our sustainability strategy.

During the year, alongside developing the Group's own net zero roadmap, we were also a key contributor to developing the British Constructional Steelwork Association's ('BCSA') UK structural steelwork decarbonisation roadmap. This roadmap sets out the new and developing technologies that will enable the UK structural steelwork sector to decarbonise to meet the UK net zero carbon target by 2050.

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

Scope 3 emissions

During the year, the Group's sustainability strategy and management process has developed to include further detail around our scope 3 emissions. Scope 3 emissions account for all of the other emissions an organisation produces when fossil fuels are burnt within its value chain. The GHG Protocol identifies 15 categories of scope 3 emissions which can be managed by an organisation, and these include both upstream and downstream activities, as well as activities undertaken by the organisation which are not included within scope 1 or scope 2. For many businesses, scope 3 emissions make up a large share of their total emissions, therefore, in the context of the UK government's 2050 net zero target, it could be said to be the most important category to address.

Our verified scope 3 GHG emissions have reduced by 41 per cent to 6,540 CO_2e from the prior year (2021: 11,137 CO_2e). This significant reduction is largely due to a 55 per cent reduction in transport and distribution-related emissions, owing to the favourable location of the construction sites we have worked on throughout the year to our factories. Waste emissions have reduced slightly due to our increased focus to divert waste from landfill. Following the easing of lockdown restrictions, our colleagues have increased travel to face-to-face meetings, and returned to our offices, in turn increasing both business travel and colleague commuting within the period.

GHG emissions from:	Tonnes of CO_2e 2022	Tonnes of CO_2e 2021
Waste	**279**	332
Business travel	**484**	246
Colleague commuting	**1,188**	404
Transport and distribution	**4,589**	10,155
Total verified scope 3 CO_2e emissions	**6,540**	11,137

Our scope 3 GHG data is being independently verified by Achilles, in accordance with the international standard ISO 14064-1.

Additional scope 3 categories

In order to develop scope 3 targets for the business in line with our ambitious targets for scope 1 and 2 emissions (those we own and have control over), a gap analysis was conducted during the year on the 15 scope 3 categories as defined by the GHG Protocol. Following this value chain mapping exercise, we concluded that our measurement of scope 3 emissions would include eight of the 15 categories of emissions. We have therefore enhanced our reporting of scope 3 emissions, to include the following four categories.

GHG emissions from:	Tonnes of CO_2e 2022
Purchased goods and services	**374,660**
Fuel & energy related	**2,848**
End of life treatment	**166**
Investments	**1,215**
Total unverified scope 3 CO_2e emissions	**378,889**

As is the case with most businesses in the construction sector, the majority of our GHG emissions are indirect (scope 3), accounting for 98 per cent of total emissions, on a market-based approach. Within scope 3 emissions, purchased goods and services represent 97 per cent of emissions, largely due to the embodied carbon in steel. We are committed to addressing our scope 3 emissions, in particular those from purchased goods and services, in order to achieve our strategic objective of net zero by 2040, this commitment is reflected by the Group signing up to SteelZero.

As we continue to develop our scope 3 reporting and set targets for the Group, we will review the requirement to have further scope 3 categories verified.

2023 areas of focus:

- We will set new long-term net zero carbon targets for the Group, approved by the SBTi, to further reduce carbon in our operations in line with climate science.
- Perform more detailed qualitative and quantitative climate scenario analysis in line with the TCFD recommendations.
- Continue to refine our approach to address the GHG impact in our supply chain and other scope 3 emissions.
- Following a two-year period of data collection, we will set new diversion from landfill and other waste reduction targets.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PEOPLE

Why is it important?

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

We have over 1,650 employees across our manufacturing facilities, construction sites and offices. Our mix of designers, project managers, quantity surveyors, estimators, engineers, fabricators, steel erectors and support function experts work together with a clear, shared purpose, to develop better ways to build, for a world of changing demands.

Management approach

Through another year where compassion, fairness and flexibility have been paramount in our approach to our colleagues we have continued to focus our activities in the following main areas:

- Maintaining our commitment to our core value – 'safety first'. To provide industry-leading safety, health and environmental ('SHE') performance.
- Creating an environment where Severfield colleagues feel listened to and are fairly recognised and rewarded for their contribution to the Group.
- Reviewing our performance, development and recruitment processes.

Safety first – striving for a zero-harm workplace

As we emerge from the challenges of the pandemic and the difficulties it has brought to the way we all work, be it in our factories, construction sites or in the offices, we maintain our commitment to provide industry-leading SHE performance.

Our focus has been, and always will be, safety first with no exceptions, an approach supported and guided by the board, management and all employees.

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

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

Creating a culture of inclusivity and diversity

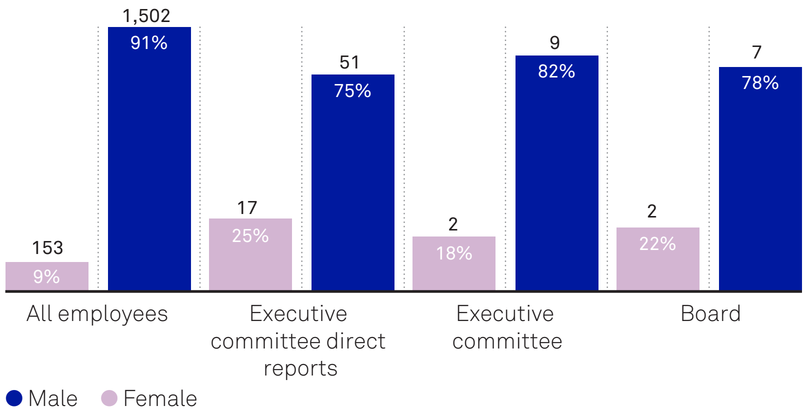
We are committed to building a supportive, diverse, and inclusive working environment where all colleagues feel they belong.

Ensuring we have multiple avenues to enable meaningful dialogue with our people is key to achieving this aim. Our intranet 'Connect' enables us to update colleagues on the strategy, performance and progress of the organisation, general company news and health and wellbeing issues. It has gone from strength to strength during the year with colleagues having the ability to comment on articles, take part in surveys and share their views. Monthly colleague engagement with the platform is at 99 per cent. Toolbox talks, manager briefings, emails, and Skyline, our company magazine, all play their part in keeping our colleagues informed and connected.

Through working closely with Louise Hardy (the Group's designated non-executive director responsible for workforce engagement) our executive committee supported by our HR team continue to develop our approaches to ensure the views of our people are heard at board level through face-to-face engagement, listening groups and surveys.

We are committed to building diversity, equity, and inclusion into everything we do and continue to implement the right conditions for all colleagues to achieve their full potential and bring their whole, authentic self to work. We acknowledge we have a long way to go. With only 9 per cent of our workforce being female, greater focus is being placed on our hiring practices and candidate attraction. Through the implementation of systems for managing HR processes, we are gaining a better understanding of under-represented groups in our workforce and diversity data is becoming an integral part of the decision-making process around talent, performance, and reward.

As of 26 March 2022, the board had two female directors (22 per cent). Female representation on our executive committee is two (18 per cent) and of those reporting directly to members of the executive committee, female representation is much higher at 25 per cent, with nearly all senior finance and HR roles being held by women. Our median gender pay gap stands at 16.3 per cent and is improving year on year.



As we faced another year of the pandemic, fairness and compassion continued to be at the forefront of our approach. For those in our manufacturing facilities or working on our construction sites, socially distanced ways of working continued to be the norm. We have continued to pay enhanced sick pay to enable colleagues to self-isolate when required, to protect their colleagues and the wider community. Our office-based colleagues have continued to deliver whilst working remotely for the majority of the 2022 financial year and embraced a return to the office on three days a week, improving collaboration, project delivery and social wellbeing.

We have continued to offer all colleagues the opportunity to share in the future success of the business through investing in an annual SAYE scheme, with 21 per cent of the workforce participating in this year's scheme.

Performance, development and recruitment

The future of the business depends on our ability to attract, recruit, develop and retain individuals with the right mix of expertise, technical skills, and personal qualities. As our focus on implementing fit for purpose systems and processes related to recruitment, onboarding and performance reviews comes to an end we have been able to shift our attention to improving line manager ability and focus on developing the skills we need for the future. Development is delivered through externally facilitated courses and events, together with a wide range of training courses that are provided internally by our dedicated in-house HR and SHE teams.

Our online performance review process, My Performance, is continuing to be rolled out across the different levels in our business and enables managers and colleagues to have open, honest conversations about their current performance, future goals, personal development, and career aspirations.

Through detailed workforce composition analysis, we have identified skills and knowledge gaps for the future and have developed and implemented early careers programmes to start to address these needs, whilst increasing our focus here and now on the recruitment of trainees and apprentices for our manufacturing facilities.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PEOPLE

A thorough review of the performance and potential of 189 senior and specialist colleagues enabled the board to have a complete and clear picture of talent across the Group and to ensure strategies are in place to further develop and retain the leaders and specialists we need for our future. This work enabled us to review our succession plans for the executive committee and business unit management boards. We believe that being able to promote from within is critical so that we can retain specialist skills and experience, especially given the capabilities and expertise that we provide to our clients.

Recruitment, as for most industries, has proved challenging this year and we have taken advantage of the government's kick start scheme and have forged new relationships with external providers working with the long-term unemployed, ex-offenders and those currently struggling to get into work.

Our progress against our targets Safety first

Given the constraints that the pandemic placed on us over the year, especially the way we interact and communicate with our colleagues, we are pleased that we have once again reported a reduction in our injury frequency rate ('IFR') for the year. Our Group IFR for 2022 decreased by 11 per cent to 1.32 (2021: 1.48), ahead of both our Group target and the industry average. This gives us an excellent platform to continue to build on over the next financial year as the world of work returns to relative normality.

Group management systems are accredited to ISO45001:2018 (Occupational Health and Safety) and ISO14001:2015 (Environmental Management). During the year, both systems underwent recertification, and we are proud to have maintained zero non-conformities, an assurance that we have robust policies and procedures in place across the Group. The policies and procedures are developed in a way that creates a fair and just culture with no harm to people, premises or planet.

In addition to the management system certifications, we have a number of high-level industry accreditations, including Constructionline Gold, which means our environmental management, equalities and diversity, quality management and legislative compliance are subject to increased scrutiny around governance and risk management, and CHAS Advanced, which further confirms our Group's health and safety processes meet excellent standards.

In December 2020 we introduced a new SHE software management platform across the Group, Intelex, with an objective of collating information across all of the business units from incident reporting, inspections and action management. Over the past year, Intelex has further embedded data analysis and outputs into our decision-making process to continually improve our SHE performance.

In 2022, we continued to work with our occupational health provider to ensure we are keeping our people healthy as well as safe. Keeping our employees healthy stretches beyond the workplace, we recognise that the stresses and strains of everyday life can affect us all and can have an impact on our performance at work. We continue to be partnered with Health Assured to provide an employee assistance program ('EAP'), assisting with issues such as personal finances, legal issues and family issues.

Engaging with our people

We recognise the importance of input and feedback from all our people in helping us deliver on our strategic goals, and as a result we launched a group-wide My Voice Forum during the year.

The forum provides a formal way for colleagues and management to connect, gain feedback and exchange information and views on any business-related topic. The forum operates in the spirit of co-operation and trust. Its aims are to build a brighter future for all at Severfield, ensuring voices are heard. Louise Hardy (our designated non-executive director responsible for workforce engagement), Alan Dunsmore (Group CEO) and our Group HR director regularly meet with the forum representatives. These meetings have provided valuable, ongoing insights and feedback for the board during a period of significant external change.

The regular feedback is helping us manage transition back into the office following the pandemic and has given us insights into how our workforce views our approach to wellbeing, communication and the training and development we offer. In turn, it has given us the opportunity to share business updates and address concerns over the impact of external factors with our colleagues in an open forum (such as energy costs and the ongoing situation in Ukraine). We look forward to strengthening the relationship and working closely with our colleague representatives over the coming year.

Future skills

During the year, to address future skills shortages, we launched our 'development on a different scale' graduate recruitment programme which attracted more than 100 applicants (of which 16 per cent were female). The first cohort of ten engineering graduates are due to join the Group in the summer. To demonstrate our commitment to investing in the next generation and developing the skills of our workforce, we became members of the '5% Club', publicly announcing our commitment to have five per cent of our workforce 'earning and learning' over the next five years. During the year, we had 15 apprentices join the business across a range of disciplines, taking the Group to a total of 21 colleagues studying for qualifications via an apprenticeship.

The Severfield Foundation

Our people are really passionate about doing the right thing and giving back, which is why The Severfield Foundation ('the Foundation') was incorporated back in 2016. Through the Foundation, we support local charities and organisations, with strong connections to our colleagues, through charitable contributions and by encouraging our people to donate their time to local communities and charitable initiatives.

Our employees coordinate the Foundation's activities, contributing to and taking part in events. With their help, our vision is to develop the Foundation into a leading trust, which will help and support disadvantaged people and local communities for many years.

As well as supporting local charities chosen by each of our Group companies, including Bolton Hospice, Saint Catherine's Hospice, Yorkshire Air Ambulance and Young Lives vs Cancer, the Foundation also nominates a 'partner' charity. Previously, we have partnered with Prostate Cancer UK and our current national charity partner is the Alzheimer's Society. Since our two-year partner relationship with the Alzheimer's Society started, the Foundation, through the Group's dedicated and generous employees, has raised over £80,000, helping the Alzheimer's Society to educate others about dementia, fund research and improve care and support.

2023 areas of focus:

- We will launch our updated SHE strategy, which will shape the future of SHE at Severfield for the coming years and continue to strive for zero harm. The new SHE strategy has three main areas of focus; people, communications & engagement, and systems & processes.
- Continue to deliver our behavioural safety training programme and the wide range of other internally and externally provided training courses.
- Promote the health and wellbeing of our people and their families through useful links to external resources or our EAP service to ensure they receive all the support necessary in these current challenging economic times.
- Further develop processes to capture and report on a range of employee-related data that can help drive our inclusivity and diversity strategy and continue to foster our culture.
- Continue to support employee-led local community initiatives and developing strong community partnerships for causes close to their hearts.

BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PROSPERITY

Why is it important?

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

Management approach

We recognise that steel can make a significant contribution to the decarbonisation of the global economy since steel is the backbone of most modern economies and underpins many industrial sectors, including construction which accounts for more than half of all steel used globally. We are committed to facilitating the transition to a zero-carbon economy as we strive to deliver sustainable profitable growth in a way that enables our customers to satisfy their own net zero ambitions.

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

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

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

Through our central engineering team and our operational improvement initiatives, we are constantly striving to develop innovative products and services that deliver positive environmental or social outcomes through the value chain and will contribute to the Group's sustainable growth. In order to achieve this aim, the recruitment, development and retention of highly skilled employees who are proficient in new and emerging digital technologies is key and aligns to our second sustainability focus area of 'people'.

Our progress against our targets

During the year, the Group generated economic value[1] of £403.6m (2021: £363.3m), an increase of 11 per cent from the prior year, and distributed £382.6m (2021: £343.2m), resulting in economic value retained of £21.0m (2021: £20.1m).

In 2022, the Group continued its work to embed its sustainability framework into our purpose and corporate strategy and further evolve our sustainability reporting to provide our stakeholders with transparent and useful information on the Group's climate-related risks and opportunities, in line with the TCFD recommendations. External advisers were appointed to support management with this task.

We continued our engagement with our key suppliers and customers to help drive the steel industry's transition to low embodied carbon steel production. We are involved in the supply chain project with Balfour Beatty, demonstrating how we are engaged in their ambition to 'Green the Chain' since the supply chain is responsible for c.80 per cent of the construction sector's emissions.

The Group's record order book of £486m at 1 June 2022 (2021: £393m at 1 November 2021) contains projects that are contributing to positive environmental outcomes, including projects developing the UK's rail infrastructure, especially, but not limited to, those for HS2 and the electrification of the rail network.

Similarly, the current level of tendering and pipeline activity across the Group is very encouraging and also includes a good proportion of projects which will contribute to a global green, more sustainable economy, including battery plants and additional rail infrastructure projects and fabrication of wind turbine blades.

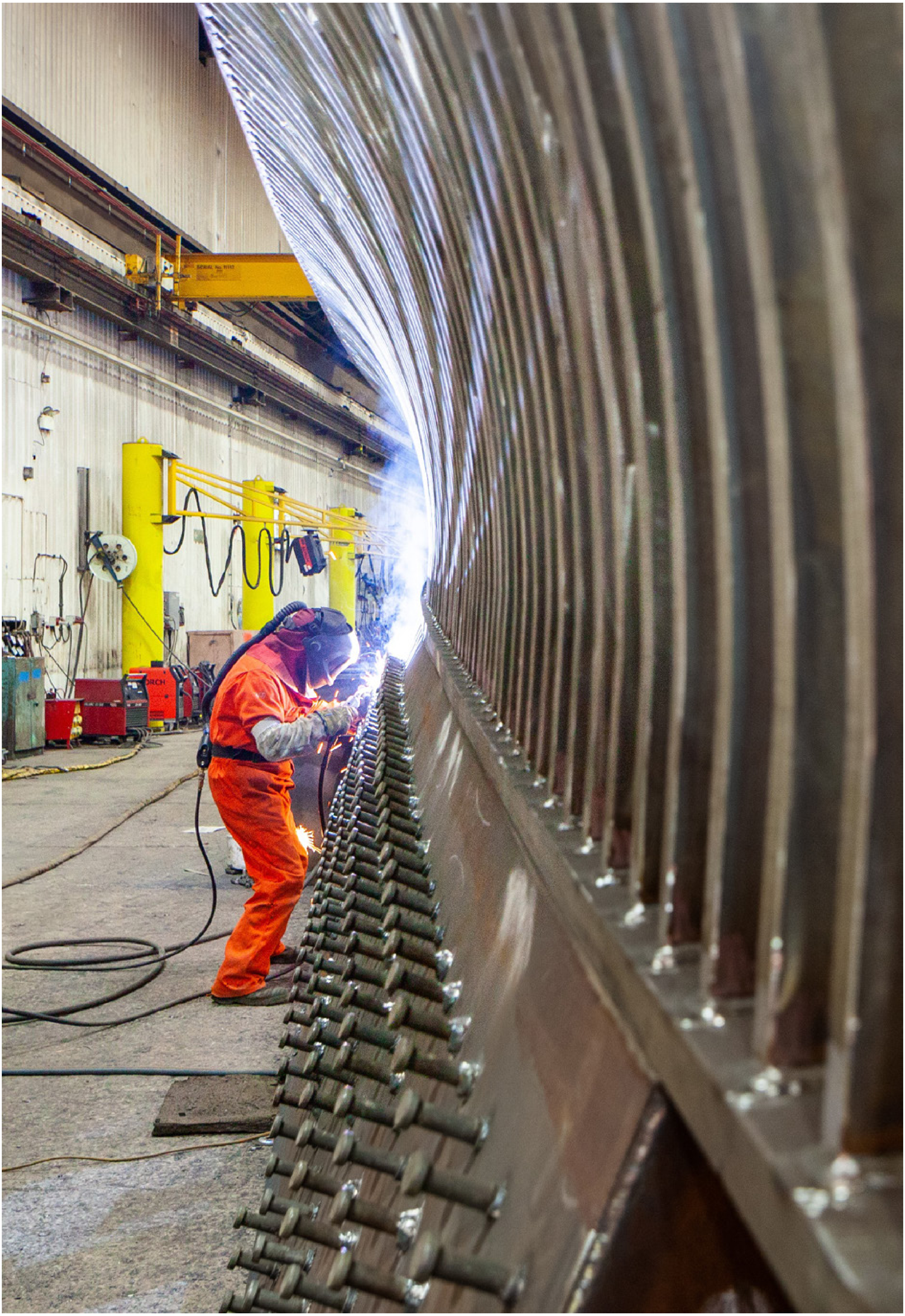
During the year, 100 per cent (2021: 97 per cent) of the Group's suppliers were subject to our annual supply chain contractor due diligence reviews to ensure our supply chain maintains the highest operational and ethical standards. Our commitment to bring our supply chain along on our sustainability journey is underpinned by our 'very good' BES 6001 accreditation and 'A-' CDP supplier engagement rating.

Recognising the importance of dividends to our shareholders and to our investment case, we paid ordinary dividends of £9.2m (2021: £8.9m), a 3 per cent increase on the prior year.

2023 areas of focus:

- Continue to engage with key suppliers on the availability of low-carbon steel
- Continue to develop and incorporate new product development processes through our business improvement initiatives and investment in research and development.

[1] See note 32 for APM definitions.



BUILDING A RESPONSIBLE AND SUSTAINABLE BUSINESS

PRINCIPLES OF GOVERNANCE

Why is it important?

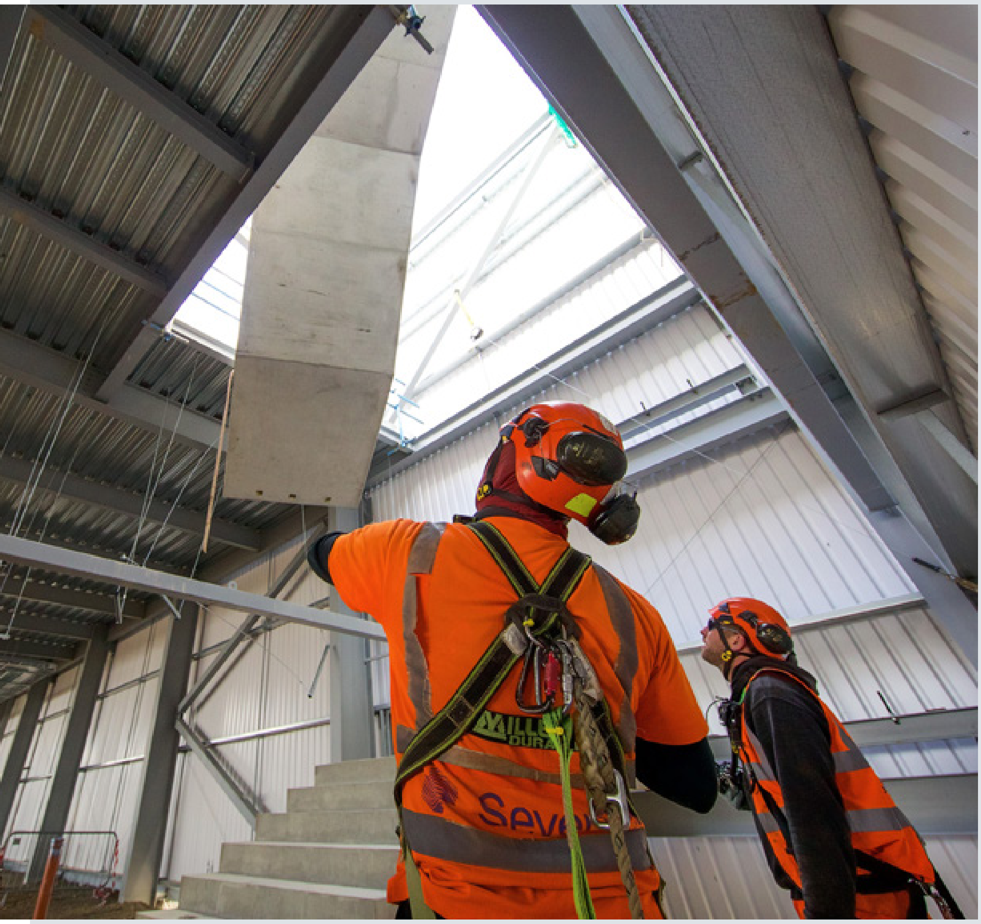
Integrity is one of our core company values and this means that we conduct our business lawfully and ethically. We strive to uphold the highest standards of ethics and act with integrity in accordance with our values.

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

Our sustainability committee

Following the launch of our sustainability policy in 2020, we established a sustainability executive working group to focus on the evolution of our sustainability strategy and to set the Group's sustainability targets and metrics in accordance with the UN SDGs. This is now a fully-fledged executive board committee, meeting bi-monthly, and continues to engage with a wide range of senior managers and colleagues across the Group to oversee the day-to-day implementation of our sustainability strategy and report on the progress of the Group to the executive committee, who ultimately reports to the board.

This gives us a well-defined management structure to help us achieve our sustainability objectives with oversight of all strategic sustainability risks and opportunities affecting the Group.



Management approach

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

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

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

Our progress against our targets

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

In 2022, the Group, again, had no incidents of bribery or corruption confirmed during the year (either relating to 2022 or previous years) and there were no incidents of discrimination reported during the year (either through HR or whistleblowing disclosures). In addition, the Group received no fines or sanctions imposed for legal or regulatory breaches (including health, safety and, environmental) or relating to non-compliance with laws and regulations during the year.

During the year, over 90 per cent of our colleagues, including all office and senior factory and site personnel, completed regular ethics training (using Cognito) based on the Group's following policies:

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

Modern slavery

The board annually reviews and approves the Group's modern slavery statement. The 2022 statement is available on our website and explains the actions taken to ensure that we provide the appropriate level of training to members of our workforce, raise awareness of modern slavery among all members of staff, and do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act 2015. This year we continued to focus on our supply chain, refreshed and added to our training of relevant staff in awareness of modern slavery and encouraged key suppliers to undertake training through the Supply Chain Sustainability School.

Human rights

We remain committed to protecting and respecting the human rights of our colleagues and those who work throughout our supply chain. As a company operating within the UK, the key human rights issue we face is equality, which we address with training and promoting inclusivity. This year we have also taken steps to collect diversity-related people data to help us to continue to improve in this area.

Anti-bribery and corruption

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

Whistleblowing

We encourage effective and honest communication, and we respond immediately to any malpractice brought to our attention. Our whistleblowing policy enables anyone to raise genuine concerns about malpractice in the knowledge that their concerns will be taken seriously and that they will be protected from possible reprisals by colleagues and management. We also publish details for Protect, an independent charity, allowing colleagues to raise concerns or seek advice from someone outside of the Group. Any whistleblowing report is immediately reported to the Group's legal director, Group HR director or Group SHE director, as appropriate, and is investigated quickly with appropriate feedback provided to the whistle blower.

Tax transparency

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

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

We have rigorous procedures in place for preventing the facilitation of tax evasion and ensure that all relevant colleagues are trained in the key aspects of the relevant legislation. This year we completed our comprehensive programme to ensure readiness for the changes to the IR35 rules which came into effect in April 2021.

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 2022

- Challenging market conditions – mitigating the impact of macro-economic factors such as inflation and shortages of labour.
- Supply chain - mitigating the impact of inflation and materials shortages post Brexit/pandemic
- Cyber security - ensuring we maintained our cyber insurance in a difficult market on renewal.
- Sustainability risk - mitigating the impact of uncertainty around stakeholder expectations as to how we conduct a sustainable and responsible business.

Our future priorities for 2023

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

- Continued focus on mitigating supply chain continuity risk and inflation risk in the supply of materials in the light of the Ukraine crisis.
- Continued focus on mitigating resourcing risk, in particular in our factories.
- Continued identification and mitigation of sustainability risks, including quantitative climate scenario analysis.
- Continued focus on mitigating cyber security risk.

Changes to principal risks

The following changes have been made to the Group's principal risks in 2022:

- Sustainable and responsible business risk has been introduced as a new principal risk.
- People risk has been upgraded to high risk due to the impact of macro-economic factors such as inflation and shortages of labour on our ability to maintain and recruit the people resources needed to deliver a high order book.
- COVID-19 risk has been removed, and
- Mispricing a contract (at tender) has been included as a principal risk (it was removed in 2021) and supply chain has been maintained as a high risk due to the uncertainty created by the impact of inflation and materials price rises caused by the Ukraine crisis and the greater risk of failing to accurately capture such risks in a fixed price at tender.

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

Risk appetite

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

The organisation's approach is to minimise exposure to reputational, financial and operational risk, whilst 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 impact of the war in Ukraine on the price and availability of construction materials.

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 sustainability issues.

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

Group board

Risk appetite

First line of defence

Management activity

Divisional boards

Internal controls:

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

Second line of defence

Group oversight

Group policies

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

Committees

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

Third line of defence

Independent review

Divisional boards

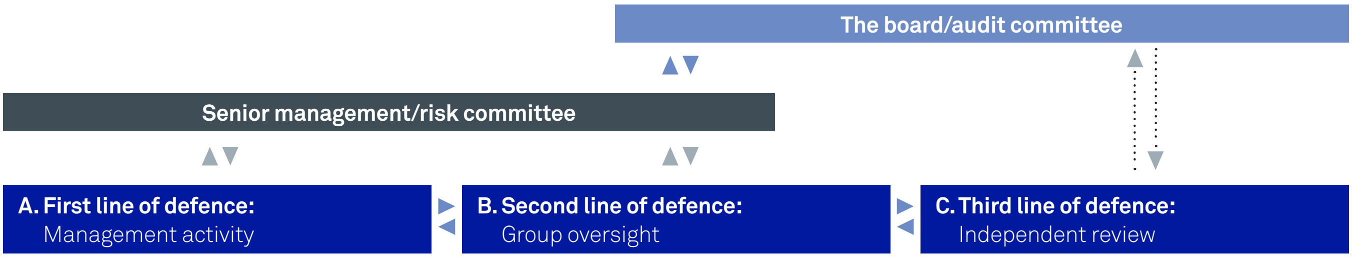
Internal controls:

- 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. On acquisition, as part of integration, new businesses adopt these policies and procedures on a phased basis.

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

Project management procedures

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

Health and safety

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

Financial control

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

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

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

Cash and working capital management

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

B. Second line of defence: Group oversight

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

Group policies

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

This continues to give further assurance as to the Group's resilience to cyber risk, which is a subject that is also discussed regularly at main board level.

These policies are supported by statements of compliance from all directors and letters of assurance ('LoA') from the Group's 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, safety leadership team, human resource committee, sustainability committee and the information security management committee

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.

The remuneration committee

This committee ensures that the board complies with regulations and best practice regarding remuneration and that remuneration policy remains appropriate for attracting and retaining management of the right calibre.

C. Third line of defence: Independent review

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

Internal auditor

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

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

Annual review of effectiveness

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

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

HOW WE MANAGE RISK

Principal and emerging risks

The board has carried out a robust assessment of the principal and emerging 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. In reviewing our risk registers we consider our principal and emerging risks and in assessing those risks, we take into account the correlation between different risks and ensure they are weighted appropriately. This exercise informs our scenario analysis used in the viability statement. This list is not intended to be exhaustive. Additional risks and uncertainties not presently known to management or deemed to be less significant at the date of this report may also have the potential to have an adverse effect on the Group.

Principal risk	Strategic pillars	Link to KPIs	Movement	Scoring
1 Health and safety	Growth, Clients, Operational excellence, People	1, 2, 3, 5, 6, 7	No change	High
2 Supply chain	Growth, Clients, Operational excellence	1, 2, 3, 4, 5, 6	No change	High
3 People	People	1, 2, 3, 5, 6	Upward trend	High
4 Commercial and market environment	Growth, Clients, Operational excellence, People	1, 2, 3, 4, 5, 6	No change	Medium
5 Mispricing a contract (at tender)	Growth, Clients, Operational excellence	1, 2, 3, 4, 5, 6	New	Medium
6 Cyber security	Growth, Clients, Operational excellence	1, 2, 4, 5	No change	Medium
7 Failure to mitigate onerous contract terms	Growth, Clients, Operational excellence	1, 2, 3, 4, 5	No change	Medium
8 Indian joint venture	India	2, 5	No change	Medium
9 Sustainable and responsible business	Growth, Clients, People	1, 2, 3, 6	New	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.

Strategic pillar key

- Growth
- Clients
- India
- Operational excellence
- People

Movement

- Upward trend
- Downward trend
- No change
- New

Scoring

- High
- Medium

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')

1 Health and safety

Description	Potential impact	Mitigation	
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.	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.	• Established safety systems, site visits, safety audits, monitoring and reporting, and detailed health and safety policies and procedures are in place across the Group, all of which focus on prevention and risk reduction and elimination. • Thorough and regular employee training programmes. • Director-led safety leadership teams established to bring innovative solutions and to engage with all stakeholders to deliver continuous improvement in standards across the business and wider industry. • Close monitoring of subcontractor safety performance. • Priority board review of ongoing performance and in-depth review of both high potential and reportable incidents. • Regular reporting of, and investigation and root cause analysis of, accidents, incidents and high potential near misses. • Behavioural safety cultural change programme. • Occupational health programme, including mental health. • Achievement of challenging health and safety performance targets is a key element of management and staff remuneration. • Detailed due diligence on new acquisitions and effective integration of SHE processes and systems. • A detailed gap analysis and strategy review was undertaken in 2022.	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 5 6 7 **Scoring** High

HOW WE MANAGE RISK

2 Supply chain

Description	Potential impact	Mitigation	
The Group is reliant on certain key supply chain partners for the successful operational delivery of contracts to meet client expectations. The failure of a key supplier, a breakdown in relationships with a key supplier or the failure of a key supplier to meet its contractual obligations could potentially result in some short to medium-term price increases and other short-term delay and disruption to the Group's projects and operations. There is also a risk that credit checks undertaken in the past may no longer be valid.	Interruption of supply or poor performance by a supply chain partner could impact the Group's execution of existing contracts (including the costs of finding replacement supply), its ability to bid for future contracts and its reputation, thereby adversely impacting financial performance.	• Process in place to select supply chain partners that match our expectations in terms of quality, sustainability and commitment to client service – new sources of supply are quality controlled. • Ongoing reassessment of the strategic value of supply relationships and the potential to utilise alternative arrangements, including for steel supply. • Contingency plans developed to address supplier and subcontractor issues (including the failure of a supplier or subcontractor). • Monthly review process to facilitate early warning of issues and subsequent mitigation strategies. • Strong relationships maintained with key suppliers, including a programme of regular meetings and reviews. • Implementation of best practice improvement initiatives, including automated supplier accreditation processes. • Key supplier audits are performed within projects to ensure they can deliver consistently against requirements.	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 4 5 6 **Scoring** High

3 People

Description	Potential impact	Mitigation	
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. This has been exacerbated in the last 12 months due to macro-economic factors such as the impact of inflation and shortages of labour.	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.	• Training and development schemes to build skills and experience, such as our successful graduate, trainee and apprenticeship programmes. • Detailed succession planning exercise completed in 2022 identifying for development future senior leaders within the business. • Attractive working environments, remuneration packages, technology tools and wellbeing initiatives to help improve employees' working lives and above average inflation pay review in 2021. • Annual appraisal process providing two-way feedback on performance. • Internal communications continually improved. • Interviews with leavers and joiners to understand the reasons for their decision. • A new HR structure implemented in 2021 and updated HR systems rolled out covering payroll and a new employee portal. • Three-year goals have been defined around HR operational efficiency, evolving our approach to performance, development and careers and creating an environment where Severfield employees feel listened to and are fairly recognised and rewarded for their contribution to the Group. • A review of the Company approach to flexible working practices has been undertaken in the light of our experiences of remote working during the COVID-19 pandemic.	**Trend** ▲ **Link to strategy** **Link to KPIs** 1 2 3 5 6 **Scoring** High

HOW WE MANAGE RISK

4 Commercial and market environment

Description	Potential impact	Mitigation	
Changes in government and client spending or other external factors could lead to programme and contract delays or cancellations, or changes in market growth. External factors include national or market trends, political or regulatory change (including the UK's trading relationship with the EU), the impact of worldwide events such as war (including the impact of the Ukraine crisis) and the impact of pandemics (including the ongoing COVID-19 pandemic). Lower than anticipated demand could result in increased competition, tighter margins and the transfer of commercial, technical and financial risk down the supply chain, through more demanding contract terms and longer payment cycles.	A significant fall in construction activity and higher costs could adversely impact revenues, profits, ability to recover overheads and cash generation.	• Regular reviews of market trends performed (as part of the Group's annual strategic planning and market review process) to ensure actual and anticipated impacts from macroeconomic risks are minimised and managed effectively. • Regular monitoring and reporting of financial performance, orders secured, prospects and the conversion rate of the pipeline of opportunities and marshalling of market opportunities is undertaken on a co-ordinated Group-wide basis. • Selection of opportunities that will provide sustainable margins and repeat business. • Strategic planning is undertaken to identify and focus on the addressable market (including new overseas and domestic opportunities). • Monitoring our pipeline of opportunities in continental Europe and in the Republic of Ireland, supported by our European business venture. • The Group closely monitors the flows of goods and people across borders for ongoing work with the EU and specific risks and related mitigations are kept under review by the executive committee. We have taken steps to ensure we can continue to deliver on current and future contractual commitments. • Maintenance and establishment of supply chain in mainland Europe. • Close management of capital investment and focus on maximising asset utilisation to ensure alignment of our capacity and volume demand from clients. • Close engagement with both customers and suppliers and monitoring of payment cycles. • Ongoing assessment of financial solvency and strength of counterparties throughout the life of contracts. • Continuing use of credit insurance to minimise impact of customer failure. • Strong cash model and balance sheet supports the business through fluctuations in the economic conditions of the sector. • Acquisition of Harry Peers and DAM Structures has broadened our reach and cross-selling opportunities, resulting in improved market resilience.	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 4 5 6 **Scoring** Medium

5 Mispricing a contract (at tender)

Description	Potential impact	Mitigation	
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.	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.	• 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. • Adoption of 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.	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 4 5 6 **Scoring** Medium

HOW WE MANAGE RISK

6 Cyber security

Description

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

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

Potential impact

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

Mitigation

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

Trend

Link to strategy

Link to KPIs

1 2 4 5

Scoring

Medium

7 Failure to mitigate onerous contract terms

Description	Potential impact	Mitigation	
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.	Loss of profitability on contracts as costs incurred may not be recovered, and potential reputational damage for the Group.	• The Group has identified minimum standard terms which mitigate contract risk. • Robust tendering process with detailed legal and commercial review and approval of proposed contractual terms at a senior level (including the risk committee) are required before contract acceptance so that onerous terms are challenged, removed or mitigated as appropriate. • Regular contract audits are performed to ensure contract acceptance and approval procedures have been adhered to. • We continue to work with the British Constructional Steelwork Association to raise awareness of onerous terms across the industry. • Through regular project reviews we capture early those occasions where onerous terms could have an adverse impact and are able to implement appropriate mitigating action at the earliest stage	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 4 5 **Scoring** Medium

8 Indian joint venture

Description	Potential impact	Mitigation	
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 has impacted JSSL and recovery is continuing.	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.	• In line with the response of the Group to COVID-19, local management in India continue to closely monitor cash flows and debt repayments, together with adopting specific actions to minimise the disruption on the joint venture operations during the Indian economy's recovery period. • Restructuring undertaken in 2021 to reduce overheads without compromising future growth plans. • Robust joint venture agreement and strong governance structure is in place. • Regular schedule of annual visits to India by UK executive and senior management to review operations and ensure appropriate oversight • 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.	**Trend** **Link to strategy** **Link to KPIs** 2 5 **Scoring** Medium

HOW WE MANAGE RISK

9 Sustainable and responsible business

Description	Potential impact	Mitigation	
Risk of not being able to meet stakeholder expectations in the light of uncertainty as to the direction in which stakeholder expectations will develop.	Loss of position as market leader and wider losses of future opportunities in the short term.	• We have demonstrated a commitment to reducing our carbon footprint by becoming carbon neutral and established other stakeholder influenced sustainability related targets, such as net zero by 2040. • We are rated A- by CDP in the leadership band. • We have a dedicated sustainability manager who monitors current legislation and expectations and develops Group strategy to facilitate and implement plans for compliance. • We are raising internal awareness of the steps we are taking and developing closer working relationships with clients and suppliers. • We monitor shareholder comments on the annual report and accounts and in one-to-one meetings.	**Trend** **Link to strategy** **Link to KPIs** 1 2 3 6 **Scoring** Medium

ICON, HARLOW

Industrial & distribution

Location:
Harlow, Essex

Client:
Icon (Harlow) Limited

Main contractor:
TSL Limited

Engineer:
Fairhurst

Architect:
Saunders Architects

Tonnage:
2,050 tonnes

Completion date:
September 2021

The project

ICON Harlow is a striking new warehouse and logistics development. This project saw Severfield deliver a three-storey van park and warehouse (unit D) on this new development in Harlow, Essex.

The overall ICON development provides 505,000 square feet of warehousing and logistics space situated close to the M11 and M25 motorways. The three-storey van park has a footprint of c.85,000 square feet.

Severfield's scope of work included designing, fabricating and installing c.1,700 tonnes of structural steelwork, magnelis steel decking, barriers, external stair towers and placement of precast stairs.

A further 350 tonnes was fabricated and installed for Unit D, an adjoining warehouse of c.48,600 square feet and including a mezzanine floor for an office, external and internal stair towers and supports, as well as placement of precast stairs and lift shafts. Rails and purlins from the Group's joint venture, Construction Metal Forming, were also utilised in the construction of the project. An adjoining canopy for weather protection for moving vans from the van park to the warehouse was also delivered by Severfield.

The requirements of the project included crash barriers with galvanised mesh panels on slotted connections to allow for deflections and movement. This meant that special attention to detail was required early in the process by the drawing office team to ensure proper fitment on site. The success of the project served to showcase the Group's end-to-end construction capabilities.

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 2022 to promote long-term success, and how it engaged with stakeholders and considered their interests when making those decisions, can be found throughout this strategic report and in the governance report.

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

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

The board has identified its and the Group's key stakeholders as our shareholders, employees and funders. With facilitation through Group departmental activity, our Group companies manage relationships with their employees, clients, supply chain partners and local communities. Details of how we have engaged as a Group with our stakeholders can be found on page 38 of the strategic report. The board's direct engagement with stakeholders is described on page 118 in the governance report, along with the board's key decisions and the stakeholder groups considered during the decision-making process and the board's monitoring of the Group's culture is described on pages 119 to 120.

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

15 June 2022

OUR GOVERNANCE

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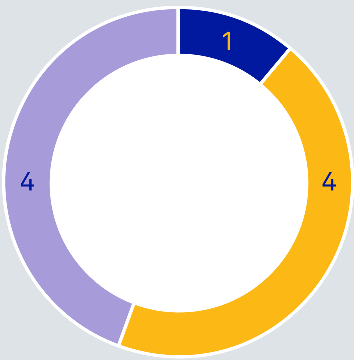
GOVERNANCE AT A GLANCE

Our board

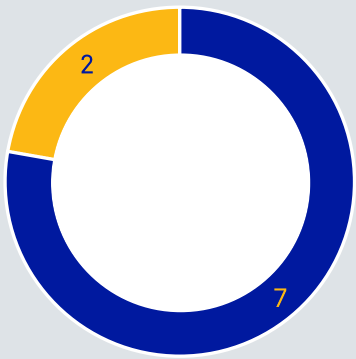
The board comprises nine directors with a diverse and complementary range of industry experience, technical knowledge, perspectives and personal strengths.

Independence



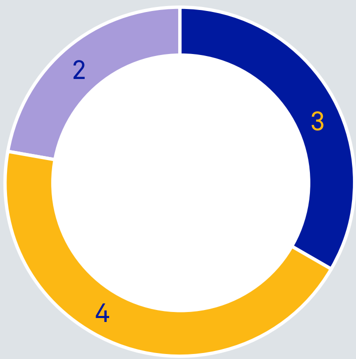
- Chairman
- Independent
- Non-independent

Board gender diversity



- Male
- Female

Length of tenure



- 1-5 years
- 6-10 years
- 10+ years

Board and committee attendance

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	3	6	3
Executive directors				
Alan Dunsmore	11			
Ian Cochrane	11			
Derek Randall	11			
Adam Semple	11			
Non-executive directors				
Kevin Whiteman[1]	11		6	3
Tony Osbaldiston	11	3	6	3
Alun Griffiths	11	3	6	3
Louise Hardy	11	3	6	3
Rosie Toogood[2]	8	2	2	2

1 As chairman, Kevin Whiteman is not a member of the audit committee but has attended meetings as a guest.

2 Rosie Toogood was appointed to the board on 16 June 2021 and has attended all board and committee meetings held since that date.

Skill and diversity matrix

We truly value diversity and a culture of inclusion at all levels within the Group.

Skill/area of expertise/experience	No. of directors with skill/experience	No. of directors without skill/experience
Business development and strategy	8	1
Mergers and acquisitions	8	1
Banking and finance	7	2
Legal and regulatory	3	6
Innovation and technology	8	1
Client relationship management	9	
Construction/engineering industry experience	8	1
Sustainability	6	3
Workforce engagement	9	
Procurement and large capital programmes experience	9	
International experience	7	2
Risk management	9	
Governance	7	2

No. of directors with skill/experience   No. of directors without skill/experience

Major board activities in the year

- Appointed Rosie Toogood as a non-executive director in June 2021.
- Louise Hardy, our workforce engagement director, instigated our successful My Voice forums.
- Completed an internal board evaluation, performed by Alun Griffiths, senior independent director.
- Approved the Group's refinancing agreement, extending the existing revolving credit facility from £25m to £50m and maturing in December 2026.
- Approved the reorganisation of the Group from 1 April 2022, reflecting a simpler divisional structure aligning our existing businesses more closely with our market sectors.

OUR BOARD OF DIRECTORS

Kevin Whiteman

N R

Chairman

Independent: Yes

Appointed: 2014 to the board and 2020 as chairman.

A chartered engineer, Kevin was chief executive of Kelda Group and Yorkshire Water for a period of eight years. Kevin was non-executive chairman of both companies from 2010 to March 2015 and a non-executive director of Cadent Gas Limited and chair of their remuneration committee from 2018 to 2021. 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. Since 2013 he has been chairman of the privately owned NG Bailey Group.

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.

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.

Derek Randall

Executive director and managing director at JSW Severfield Structures

Independent: No

Appointed: 2011

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

Rosie Toogood

A N R

Non-executive director

Independent: Yes

Appointed: June 2021

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

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

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

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 Synstar International plc and non-executive director and chairman of the audit and risk committee of the Serious Fraud Office. He is currently chairman of Encon, the insulation and building products distributor.

Alun Griffiths A N R

Senior independent director (chairman of the remuneration committee)

Independent: Yes

Appointed: 2014

Alun was a main board member at leading engineering consultancy WS Atkins plc from 2007 to 2014 and held a number of business leadership and corporate roles, most recently as Group HR director. Whilst at Atkins, he worked extensively in the UK and internationally in Europe, the Middle East, India, Asia and the USA on a range of management consultancy assignments and on major projects.

Alun has significant experience in HR and organisation development, business development and project delivery. He is vice chairman and chairs the licensing committee and the remuneration committee at the Port of London Authority (an approving authority for major infrastructure projects on the Thames) and chairs the transaction committee at the Ramboll Group (providing oversight for major bids and M+A).

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

Louise Hardy A N R

Non-executive director and workforce engagement director

Independent: Yes

Appointed: September 2019

As an executive director, Louise was the European project excellence director at AECOM, responsible for project management across a portfolio of 10,000 projects 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 as the delivery partner to the Olympic delivery authority for the London 2012 Olympics. Prior to this, Louise worked at Bechtel Ltd as a project director and manager and worked for London Underground Ltd on the Jubilee line extension project.

Louise is a Fellow of the Institution of Civil Engineers, the Chartered Management Institute and the Women's Engineering Society. She is a director of the North West Cambridge Development. Louise won the European Women in Construction and Engineering lifetime achievement in construction award 2019.

Louise is a non-executive director at Balfour Beatty plc, Genuit Group plc and Crest Nicholson Holdings plc.

Committee membership

N Nominations

A Audit

R Remuneration

Committee chairman

OUR EXECUTIVE COMMITTEE

Alan Dunsmore
Chief executive officer

For details, see board of directors on page 104

Ian Cochrane
Chief operating officer

For details, see board of directors on page 104

Derek Randall
Executive director and managing director at JSW Severfield Structures

For details, see board of directors on page 104

Adam Semple
Group finance director

For details, see board of directors on page 104

Rob Evans
Divisional managing director, Severfield (Commercial & Industrial)

Following the Group's reorganisation in March 2022, Severfield moved to a divisional structure which saw Rob become divisional managing director for the Group's new commercial and industrial division encompassing Severfield (UK), Severfield (Design & Build), Severfield (NI) and Severfield Europe B.V.

Prior to this, Rob became managing director of Severfield (UK) in February 2020, from which time he was responsible for all aspects of the contracting business for both Severfield (UK) and Severfield Europe B.V. Rob joined the Group over 24 years ago and during that time has performed various commercial and quantity surveying roles within the Group, including at Severfield (Design & Build) and Severfield (NI).

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

Jim Martindale
Divisional managing director, Severfield (Nuclear & Infrastructure) and Severfield (Products & Processing)

Following the reorganisation in March 2022, Jim was appointed as divisional managing director for the Group's new Nuclear and Infrastructure Division and of the Products and Processing division.

Jim joined Severfield (Design & Build), formerly Atlas Ward Structures, in 1994 as a design engineer, which saw him heavily involved with the commercial department. He became engineering manager in 2002, design director in 2007 and deputy managing director in 2010, a role that he performed until his appointment as managing director in January 2014.

Jim has been involved in the successful delivery of many major projects throughout the UK during his career with Atlas Ward and Severfield. He is also an associate member of the Institution of Structural Engineers.

Mark Sanderson

Group legal director and Company secretary

Mark joined the Group in September 2013.

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

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

Phillipa Recchia

Group SHE director

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

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

Mike Mannion

Group manufacturing director

Mike joined Severfield in 2019 as operations director (manufacturing) for Severfield (UK) and was responsible for our manufacturing operations at both our Dalton and Lostock sites.

Following a company reorganisation in March 2022, Severfield moved to a divisional structure which saw Mike become Group manufacturing director, overseeing operations in Dalton, Lostock, Northern Ireland, Bolton, and Bridlington.

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.

Richard Davies

Group IT director

Richard joined Severfield (Design & Build), formerly Atlas Ward Structures, in 1997 as an apprentice plater welder, which provided valuable experience and insight into key production activities. He moved into IT support in 1999 and went on to perform various roles within IT, until his appointment as Group IT director in January 2016.

Within this role, Richard is responsible for all aspects of IT across the Severfield group.

With more than 20 years' experience in the construction sector, Richard has been involved in the successful delivery of many innovative IT projects.

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 ENSURED THAT STRONG AND ROBUST CORPORATE GOVERNANCE CONTINUES TO BE AT THE HEART OF EVERYTHING WE DO, WE HAVE FOR THE FIRST TIME REPORTED ON OUR ALIGNMENT WITH THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES ('TCFD') RECOMMENDATIONS ON CLIMATE CHANGE AND WE HAVE CONTINUED TO FOCUS ON STAKEHOLDER ENGAGEMENT.

KEVIN WHITEMAN
NON-EXECUTIVE CHAIRMAN

Dear shareholder

I am pleased to introduce the Group's corporate governance report (at pages 110 to 121) on behalf of our board of directors ('the board'). The Group is committed to business integrity, high ethical values and professionalism in all of its activities and this report explains how we manage the Group and comply with the provisions of the UK Corporate Governance Code ('the Code').

Leadership and board composition

As highlighted last year, we appointed Rosie Toogood in June 2021 as a non-executive director, and this year Louise Hardy as our workforce engagement director. Louise has been at the heart of our My Voice forums providing a formal way for colleagues and management to connect, gain feedback and exchange information and views on any business-related topic.

Board evaluation

During the year, an internal board evaluation was undertaken by Alun Griffiths, the senior independent director. This included an evaluation of my own performance as well as that of the other directors and the board's committees. Overall, the evaluation was positive and further details can be found in the corporate governance report on page 121.

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 122.

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 110.

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, a summary of how we intend to operate that policy in 2023, and a review of the remuneration committee's activities, together with bonus and PSP performance in 2022, can be found in the remuneration report on pages 134 to 152.

Talent and diversity

The board is mindful of diversity and we are committed to building a supportive, diverse, and inclusive working environment where all colleagues feel they belong. The board is represented by a range of industry experience and personal strengths and consists of two female and seven male directors. Further details of their skills and experience can be found on pages 102 to 105.

UK Corporate Governance Code

This year, the Company has complied fully with the requirements of the 2018 Code throughout the accounting period and to the date of this report, with one exception, namely non-compliance with provision 9 requiring at least half of the board excluding the chairman to be independent, during the period 1 April 2021 to 15 June 2021, prior to the appointment of Rosie Toogood to the board, for the reasons outlined in last year's report.

The board is committed to ensuring it and our wide employee base remains diverse and the Group has an equal opportunities and diversity policy to support this. As an equal opportunities employer, we are committed to encouraging diversity and eliminating discrimination in both our role as an employer and as a provider of services and to achieving and maintaining a workforce that broadly reflects the communities in which we operate. In addition, our succession plans reflect our commitment to diversity.

During the year, we continued to monitor the gender pay gap and our gender balance across all tiers of management. We are confident that our gender pay gap does not stem from paying men and women differently for the same or equivalent work. We are mindful though, that the sector in which we operate is male dominated and we are now monitoring diversity in our recruitment and seek to attract a more diverse workforce over time.

Relations with shareholders

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

We have an open and effective dialogue with shareholders, with regular meetings being held with institutional shareholders. The AGM will be held on 8 September 2022 in London and I encourage all shareholders to submit any questions in advance and to vote via proxy for the resolutions.

Kevin Whiteman
Non-executive chairman

15 June 2022

CORPORATE GOVERNANCE REPORT

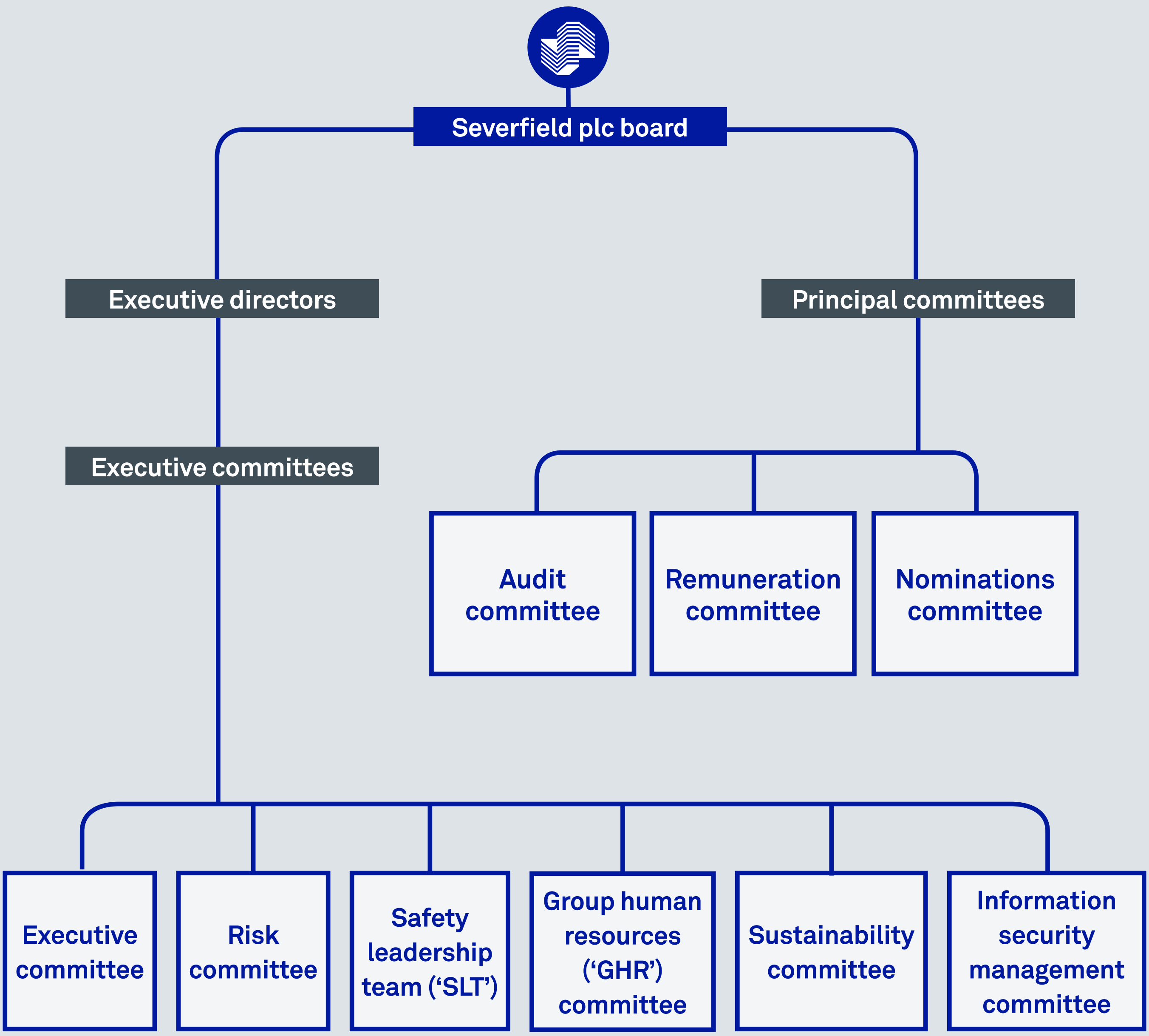
Board leadership and company purpose

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 104 and 105. The board consists of the chairman, four other non-executive directors and four executive directors.

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



Independence

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

At no time during the year ended 26 March 2022 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 134. 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 104 and 105 will be standing for re-election at the 2022 AGM.

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

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

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

Severfield board

The board is responsible for providing effective leadership to the Group to create and deliver long-term shareholder value. This includes setting the strategic direction of the Group, reviewing all significant aspects of the Group's activities, overseeing the executive management and reviewing the overall system of internal control and risk management. The board has a formal schedule of matters reserved for it. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks, including environmental and health and safety issues. It reviews the Group's strategic direction, codes of conduct, annual budgets, progress towards achievement of those budgets, significant capital expenditure programmes and the annual and half year results.

The board also considers employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. Other specific responsibilities are delegated to the board's committees described as follows.

CORPORATE GOVERNANCE REPORT

Member(s)/Committee	Responsibilities
Non-executive chairman Kevin Whiteman	The chairman, Kevin Whiteman, is mainly responsible for managing the business of the board, evaluating its performance and setting the agenda for board meetings to ensure that adequate time is allocated to the discussion of all agenda items, facilitating the effective contribution of all directors. The chairman acts as an ambassador for the Company and provides effective communication between the board and its shareholders. The chairman, together with the Company secretary, ensures that the directors receive clear information on all relevant matters in a timely manner. Board papers are circulated sufficiently in advance of meetings for them to be thoroughly digested to ensure clarity of informed debate. The board papers contain the chief executive officer's, the Group finance director's and chief operating officer's written reports, high-level papers on each business area, key metrics and specific papers relating to agenda items. The board papers are accompanied by a management information pack containing detailed financial and other supporting information. The board receives occasional ad hoc papers on matters of particular relevance or importance. The board also receives presentations from various business units and senior managers, including members of the executive committee.
Chief executive officer Alan Dunsmore	As the senior executive of the Company, Alan Dunsmore is responsible to the chairman and the board for directing and prioritising the profitable operation and development of the Group. The chief executive officer is responsible for the day-to-day management of the operational activities of the Group, assessing and implementing strategy and implementing the board's decisions. The chief executive officer chairs an executive committee consisting of the members indicated on pages 106 to 107. This committee assists the main board by focusing on strategic and operational performance matters relating to the business and meets formally on a monthly basis. He also, together with the Group finance director and chief operating officer, holds quarterly meetings with each of the business unit boards to review all operational issues and meets with an executive risk committee comprising himself, the Group finance director, chief operating officer and the Group legal director on a weekly basis to discuss any key issues affecting the business. In addition, he chairs a safety leadership team ('SLT') and a Group human resources ('GHR') meeting once a month, both of which consist of certain other members of the executive management team and business unit managing directors. He is also chair of the sustainability committee which meets every two months to oversee implementation of our sustainability strategy and review progress against our strategic objectives.
Senior independent director Alun Griffiths	Alun Griffiths is the senior independent non-executive director whose role is to provide a sounding board for the chairman and to serve as an alternative source of advice to the chairman for the other non-executive directors. The senior independent director is available to shareholders if they request a meeting or have concerns, which contact through the normal channels has failed to resolve, or where such contact is inappropriate. He also leads the performance review of the chairman and the board, taking into account the views of the executive directors.
Board committees	The board has established three standing committees, all of which operate within defined terms of reference, which are available from the Company secretary by request and published on the website. The terms of reference for the audit and nominations committees were updated during the year. 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 122 to 152.

Board meetings

The directors' attendance record at the scheduled board meetings and board committee meetings for the year ended 26 March 2022 is shown in the table below.

	Board	Audit committee	Remuneration committee	Nominations committee
Total number of meetings	11	3	6	3
Executive directors				
Alan Dunsmore	11			
Ian Cochrane	11			
Derek Randall	11			
Adam Semple	11			
Non-executive directors				
Kevin Whiteman[1]	11		6	3
Tony Osbaldiston	11	3	6	3
Alun Griffiths	11	3	6	3
Louise Hardy	11	3	6	3
Rosie Toogood[2]	8	2	2	2

1 As chairman, Kevin Whiteman is not a member of the audit committee but has attended meetings as a guest.

2 Rosie Toogood was appointed to the board on 16 June 2021 and attended all board and committee meetings held since that date.

Meetings were held at the Group's head office in Dalton, North Yorkshire, but also at various locations in London, and at the offices of the Group's other operating subsidiaries to provide non-executive directors the opportunity to increase their knowledge and understanding of the Group's operations. During the year, some of these meetings were held remotely by video conference, either due to COVID restrictions or in the interests of sustainability and efficiency.

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.

CORPORATE GOVERNANCE REPORT

Board meetings for the current year

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

April 2021

- Business briefing from Severfield (UK)'s commercial director on commercial management
- Reviewed the statement of compliance in accordance with the Modern Slavery Act
- Reviewed and approved updated terms of reference for the audit and nominations committees
- Reviewed and approved the Group's pre-close trading statement issued on 22 April 2021
- Reviewed and approved proposed auditor fees for the year ended 26 March 2021
- Reviewed and approved a proposed increase in non-executive director fees effective from 1 April 2021

June 2021
2 meetings

- Received feedback from the chairman of the nominations committee on the board evaluation undertaken by the senior independent director
- Presentation on the Group's approach to sustainability and carbon reduction by the Group SHE director
- Reviewed and agreed proposed Group's strategic supply arrangements
- Reviewed and approved proposed appointment of Rosie Toogood as a non-executive director and approved the relevant RNS announcing the appointment
- Reviewed and approved annual report and accounts and results announcement for the year ended 27 March 2021
- Reviewed and approved proposed payment of a final dividend for the year ended 27 March 2021
- Assessed going concern and longer-term viability of the Group and reviewed the effectiveness of internal controls
- Approved the launch of a new savings plan under the rules of the Severfield Sharesave Scheme and the relevant share options that would be granted as a result

July 2021

- Reviewed first quarterly forecast for the year ended 26 March 2022
- Reviewed feedback on year-end results for the year ended 27 March 2021
- Reviewed a detailed paper on the Group's cash strategy
- Reviewed and approved a paper recommending that, due to the impact of the COVID-19 pandemic, attendance at the 2021 AGM would be restricted to shareholders who had pre-registered to attend and offering shareholders the opportunity to ask questions in advance of the meeting
- Reviewed and approved AGM notice
- Reviewed and approved proposed board and board committee calendar of meetings for financial year ending 25 March 2023

September 2021
2 meetings

- Reviewed and approved management's proposed approach to the 2021 pay review
- Reviewed and approved the Group's AGM trading statement issued on 1 September 2021
- Reviewed and approved an update to the Company's conflicts of interest policy, received annual statements of compliance from directors and approved related parties list and conflicts of interest disclosed
- Reviewed a paper summarising investor representatives' comments ahead of the AGM
- Reviewed a paper on the proposed refinancing

November 2021
2 meetings

- Site visit and factory tour at Sherburn and management briefing from Severfield (Products & Processing) by way of general business update
- Presentation on HR strategy from the Group HR director
- Management briefing from Severfield Europe's managing director on opportunities in Europe
- Reviewed and approved half year results for the year ended 26 March 2022
- Approved interim dividend for the year ended 26 March 2022
- Reviewed second quarterly forecast for the year ended 26 March 2022
- Reviewed and approved a refinancing proposal to extend the Group's revolving credit facility from £25m to £50m and to extend its term to December 2026

December 2021

- Off-site strategy day

January 2022

- Site visit and factory tour at Harry Peers in Bolton and briefing from Harry Peers' senior management team on opportunities in the nuclear sector
- Reviewed investor feedback on interim results for the year ended 26 March 2022

March 2022
2 meetings

- Site visit and factory tour at Dalton
- Site visit and factory tour at Lostock and briefing from Severfield (UK)'s managing director on bridge projects
- Reviewed third quarterly forecast for the year ended 26 March 2022
- Management briefing on organisational evolution from CEO and Group HR director
- Agreed scope and content of board and chairman evaluation
- Noted the register of directors' interests in shares
- Reviewed and approved the budget for the year ending 25 March 2023
- Reviewed and approved proposed appointment of Liberum Capital as joint broker with Jefferies

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 pages 118 and 119, there were no specific issues raised during the year that influenced these decisions.

Principal decision	Action taken	Outcome	Key stakeholder groups considered
Pay review	As part of our ongoing drive to improve internal equity across our Group and create an environment where everyone feels valued and fairly rewarded for the contribution they make, 'pay and benefits' has been an area of focus for us during the year.	A pay increase was agreed for our collectively bargained groups at a level which recognised the ongoing commitment they had shown during the early days of the pandemic. In addition, we enhanced the holiday allowance and employer pension contributions for a large proportion of our workforce.	Our workforce and their families and their communities.
Refinancing	Reviewed the levels of our existing senior lending facilities and whether to seek an increase and considered the timing of when to renew.	Extended our facility from £25m to £50m in December 2021.	In ensuring the Group has available to it the cash resources needed to enable it to deliver its strategy, the board took into account the interest of all stakeholders who rely on the Group's ability to remain viable.
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 and purpose, the views of all our stakeholders were considered. Our success depends on good relations with members of our workforce, customers and supply chain. Before publishing the Group's purpose, the views of our workforce will be considered via the My Voice forums.
Appointment of a joint broker	Considered the appointment of a joint broker to work alongside Jefferies, to increase equity sales.	Appointed Liberum Capital as joint broker with Jefferies.	The board took account of comments from investors and acted in the long-term interests of all shareholders (including workforce members of our save as you earn schemes).

Principal decision	Action taken	Outcome	Key stakeholder groups considered
Setting the annual Group budget and subsequent forecast modelling for going concern purposes	Reviewed Group budgets for FY23 and 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 considered the future cash requirements of the business, shareholder expectations and the need to provide our shareholders with sustainable returns over the longer term.
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 inflation.	Maintained as 'high' risk our assessment of the risk of a serious health and safety incident, the impact of macro-economic factors such as inflation and shortages of labour on our ability to maintain and recruit the people resources needed to deliver a high order book and our assessment of supply chain risk reflecting materials shortages caused by the Ukraine crisis.	The board considered the impact on all stakeholders, in particular those identified in the principal risks section on pages 86 to 98.
Recommending a final dividend	Considered the quantum of the final dividend for the year ended 27 March 2021 in light of the Group's overall financial position and its other financial commitments.	Recognising the importance of the dividend to our investment case and our shareholders, we recommended the payment of a final 2021 dividend of 1.8p per share (maintaining the 2020 dividend level), having taken into account the Group's overall financial position and its other financial commitments.	The board considered the impact on its shareholders of its progressive dividend policy and balanced this with the needs of other stakeholders.
The Group's approach to sustainability and climate	The board reviewed management's proposed approach to sustainability matters, including climate risk.	The board approved management's proposed approach to the setting of targets and goals on key climate-related and other sustainability matters.	The board, mindful of its duty to promote the success of the Company and consider the broader interest of external stakeholders, took a proactive approach to considering how to minimise the impact of its operations on the environment.

CORPORATE GOVERNANCE REPORT

Engagement with stakeholders

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

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

Clients	Workforce	Supply chain	Communities	Shareholders	Funders
Excellent customer service, with delivery of projects on time and to budget. Early contract engagement, providing problem-solving solutions and balancing time, cost and quality objectives.	A safe and sustainable 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 and sustainable working environment, with opportunities for repeat business.	Operating ethically and sustainably, 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 39.

The board engages directly with the Group's shareholders, suppliers, workforce and funders, and has undertaken the following activities in 2022:

Shareholders

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

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

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

Alan Dunsmore and Adam Semple attended several meetings with institutional shareholders, private investors and analysts during the year, at the time of the announcements of the Group's annual and half-year results.

Feedback from those meetings was reported to the board, including the non-executive directors, and was factored into the board's strategy review and its decision to declare a final dividend and to appoint a joint broker.

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 communicated to shareholders at least 20 working days before the meeting.

Suppliers

The board reviewed and approved the continuation of our prompt payment policy and throughout the year we continued to pay our suppliers on time. During the Ukraine crisis, we have engaged closely with suppliers to monitor the effect of the crisis on their ability to provide continuity of service.

Workforce

Recognising the importance of input and feedback from all colleagues in helping us deliver on our strategic goals, we launched a group-wide My Voice forum during the year, facilitated by Louise Hardy, the Group's designated non-executive director responsible for workforce engagement. The forum provides a formal way for colleagues and management to connect, gain feedback and exchange information and views on any business-related topic. Louise and the chief executive officer, Alan Dunsmore, attend all My Voice forum meetings. Louise provides verbal updates to the board following each forum meeting and written updates on what was heard and discussed at the forums, and the actions the executive committee has taken to address these points, are provided to the board by the Group HR director on a quarterly basis.

In addition, during the year, members of the board visited various sites across the Group and met with groups of employees, discussing with them their experiences and views.

We have continued to develop our intranet 'Severfield Connect' in 2022 to enable us to communicate better and develop a more integrated working culture and to track engagement. Colleagues across the Group have raised issues and questions 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.

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.

The good working relationship established with our banks enabled us to bring forward the timeline for extending our senior debt facilities and increasing our total facility from £25m to £50m in December 2021.

Board's monitoring of culture

The Group's purpose and culture are closely aligned with our core values which are focused on driving the right behaviours for the Group to succeed. Our culture provides an environment in which our workforce can operate safely, act instinctively with integrity, develop strong and long-term relationships with clients and suppliers, and are treated fairly and with respect. This way we can innovate, evolve and successfully deliver our strategic objectives. We do not experience the typical indications of poor culture such as high staff turnover and absenteeism or a poor attitude to training and the board was encouraged by the constructive approach taken by the workforce and by management over the past two years to dealing with the impact of the COVID-19 pandemic by changing ways of working, travelling patterns and participating in other measures such as temperature testing and COVID-19 testing. The board recognised this in its approach to the pay review in September 2021.

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

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

CORPORATE GOVERNANCE REPORT

What we monitor and measure	Board action in 2022
Core value – customer focus	
The executive directors keep the board updated on key projects and customer relationships. The board reviews material issues arising on contracts which may impact a Group company or the Group as a whole.	Reviewed Group company board summaries which included information on key clients and suppliers and the performance of contracts. Reviewed market information and tender feedback information, together with business development plans, which focus on key client relationships and new clients with whom we wish to have future business. Approved Group company strategic plans which include information on key clients and client feedback.
Core value – safety first	
The executive reports include information on health and safety performance, including accident frequency rate, incident frequency rate, near misses and high potential incidents and absence days due to sickness/injury. The board regularly reviews information on the safety strategy, update on personal injury claims, training records and performance, interaction with the HSE, occupational health initiatives and key developments in the market which could impact on safety performance.	Regular monitoring of health and safety performance is a priority for the board and is the first agenda item for all board meetings. Board members attended site and factory safety visits during the year, encouraging employees to suggest improvements and share best practice and reported back to the board on the key messages taken away from these visits. Reviewed and refreshed our ongoing behavioural safety programme. For more information, please read our **building a responsible and sustainable business** report on page 56
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 covering a range of ethical matters including supplier payment terms, gender pay and any issues of concern raised by employees whether by way of formal whistleblowing or otherwise. We have policies in place, including the Group's authorisation policy, competition law policy, anti-bribery policy and expenses policy and these are regularly reviewed.	Reviewed output from Cognito (our e-learning tool). Reviewed payment practices reporting submissions and prompt payment code disclosures. Reviewed and approved our modern slavery statement. Reviewed statements of compliance from all directors and letters of assurance ('LoA') from the Group's 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 responsible and sustainable business** report on page 56
Core value – commitment	
The executive directors keep the board updated on how the Group is meeting its contractual and commercial commitments to our customers, our suppliers and our workforce.	Challenging the executive directors on any relationship issues arising with any of our customers, suppliers or workforce. Asking colleagues, customers and suppliers on factory and site visits for feedback on our performance.

Board evaluation process

The board considers that the balance of relevant experience amongst the various board members enables the board to exercise effective leadership and control of the Group. It also ensures that the decision-making process cannot be dominated by any individual or small group of individuals.

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

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

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 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 sustainability and climate matters as set out in our sustainability report and our TCFD disclosure.

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 153) and a statement by the auditor concerning their responsibilities (page 163). The directors also report that the business is a going concern (page 53) 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 30 to 36). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 54).

Modern slavery

The board annually reviews and approves the Group's modern slavery statement. The 2022 statement is available on our website at www.severfield.com and explains the actions taken to ensure that we provide the appropriate level of training to members of our workforce, raise awareness of modern slavery among all members of staff, and do not undertake activities or engage suppliers or subcontractors who undertake activities that may be in breach of the Modern Slavery Act 2015. This year we continued to focus on our supply chain, refreshed and added to our training of relevant staff in awareness of modern slavery and encouraged key suppliers to undertake training through the Supply Chain Sustainability School.

Annual report

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

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

Remuneration

The directors' remuneration report is on pages 132 to 152. It sets out the activities of the committee, the levels and components of remuneration and refers to the development of the remuneration policy.

AUDIT COMMITTEE REPORT

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

TONY OSBALDISTON
CHAIRMAN OF THE AUDIT COMMITTEE

Number of meetings

3

Members

Tony Osbaldiston (chairman)
Alun Griffiths
Louise Hardy
Rosie Toogood (from her appointment on 16 June 2021)

2022 key achievements

- Oversaw the continued development of the Group's systems of risk management and internal control.
- Reviewed and recommended to the main board the report and accounts for the 2022 interim accounts and the year ended 26 March 2022.
- Reviewed management's papers on the accounting impact of the acquisition of DAM Structures Limited.
- Reviewed the carrying value of the Group's investment in JSSL for impairment in the light of the impact of the COVID-19 pandemic.

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. Kevin Whiteman, Alan Dunsmore, Adam Semple, Mark Sanderson and Gemma Mortimer, our Group financial controller, also attended each meeting by invitation.

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

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

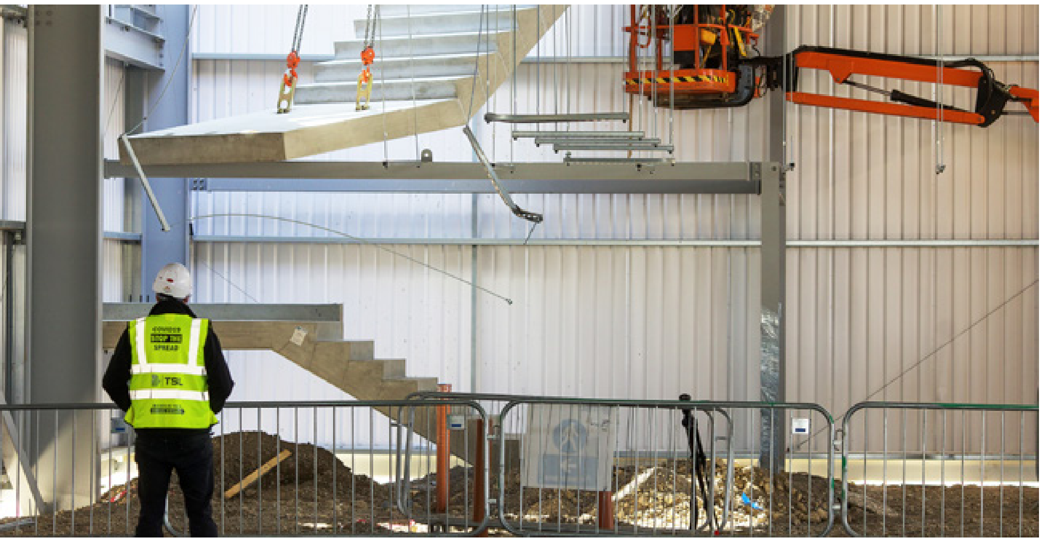
Role and key responsibilities

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

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 2022 financial year:

- Reviewed the interim results for the period ended 25 September 2021 and the year-end results for the year ended 26 March 2022.
- 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 26 March 2022. 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 26 March 2022.
- Reviewed the Group's risk register.
- Considered and reviewed JSSL's internal audit reports.
- Considered and reviewed management's papers on the accounting impact of the acquisition of DAM Structures Limited.
- Reviewed the carrying value of the Group's investment in JSSL for impairment in the light of the impact of the COVID-19 pandemic.
- Reviewed and agreed the external auditor's audit planning report in advance of the audit for the year ended 26 March 2022.
- 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 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 25 March 2023 together with arrangements being proposed for succession on the retirement of KPMG's lead audit partner.
- Reviewed PricewaterhouseCooper LLP's ('PwC') internal audit reports covering various aspects of the Group's operations, controls and processes and approved the internal audit plan.

Fair, balanced and understandable

The committee was provided with, and commented on, a draft copy of the annual report for the year ended 26 March 2022. At the request of the board, the committee also considered whether the annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. To enable the board to make this declaration, the committee received a paper from management detailing the approach taken in preparing the annual report. The committee is satisfied that, taken as a whole, the annual report and accounts is fair, balanced and understandable.

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

AUDIT COMMITTEE REPORT

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 86 to 98. 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 54 of the strategic report.

Financial reporting and significant financial issues

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

'Contract valuation, revenue and profit recognition', like last year, is classified as a significant accounting risk and this year it is the only such risk.

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.

The external auditor performed detailed audit procedures on this accounting risk and reported their findings to the committee. The committee was satisfied that this matter 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 2022 results. These include finalisation of the valuation of intangible assets and contingent consideration for DAM Structures, going concern, profit recognition of the Indian joint venture investment, the valuation of pension scheme liabilities, ESG and climate change disclosures and the disclosure of certain contingent liabilities.

Internal audit

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

External auditor independence and effectiveness

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

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

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

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

Reappointment of external auditor

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

As previously reported, KPMG were selected as the Group's auditor for the year ended 26 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 2022 is David Morritt, whose appointment in this role commenced with the audit for the financial year ended 30 March 2019. David has announced his retirement with effect from 30 September 2022 and arrangements for his succession have been discussed with KPMG.

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 26 March 2022 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 2022 represent nil per cent (2021: ten 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

15 June 2022

NOMINATIONS COMMITTEE REPORT

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

KEVIN WHITEMAN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Number of meetings

3

Members

Kevin Whiteman
Tony Osbaldiston
Alun Griffiths
Louise Hardy
Rosie Toogood (since her appointment on 16 June 2021)

2022 key achievements

- Recommending the appointment of Rosie Toogood as a new non-executive director.
- Undertaking and considering the results of the board evaluation.
- Reviewing the Group's succession plans for board and executive committee appointments.
- Reviewing and developing a board skills and diversity matrix and taking this into account in its plans for the appointment of replacement non-executive directors in 2023.

2023 areas of focus

- Using the board skills and diversity matrix, developing a plan for the identification of suitable candidates to replace those non-executive directors retiring before the 2023 AGM.
- Reconsidering the effectiveness of an external board evaluation.

Role

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

- To review the structure, size and composition of the board.
- To make recommendations to the board for any changes considered necessary.
- To approve the description of the role and capabilities required for a particular appointment.
- To ensure, having due regard for the benefits of diversity on the board, including gender, and on the skills matrix of the board, that suitable candidates are identified and are recommended for appointment to the board.

The committee's terms of reference were updated in April 2021 and are available on the Group's website (www.severfield.com) and on request from the Company secretary.

Board effectiveness

In June 2021, Rosie Toogood was appointed as a new non-executive director following a recruitment process involving Korn Ferry. The board now consists of nine directors and we consider each of our non-executive directors on the board to be independent. Korn Ferry has supported the board in previous selection processes for new board members but has no other connection with the Company.

Diversity

We truly value diversity and a culture of inclusion at all levels within the Group. Our 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.

The board had two female directors (22 per cent). Female representation on our executive committee is two (18 per cent) and of those reporting directly to members of the executive committee, female representation is much higher at 25 per cent, with nearly all senior finance and HR roles being held by women.

Succession planning

The committee ensures the continued effectiveness of the board through appropriate succession planning and ensures that the Company has in place a succession planning programme designed to identify and develop future senior leaders and to achieve diversity. Each year the committee meets to review succession plans for the board and for senior management and takes into account the issues arising out of the evaluation of the board's effectiveness and its commitment to diversity.

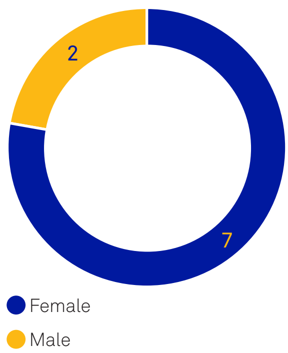
Evaluation

The committee considered whether an external board evaluation should be procured and decided that it should not. They asked Alun Griffiths, the senior independent director, to perform an internal evaluation using the process described on page 121. The results of the evaluation were positive. The key points arising from the evaluation were documented and discussed with the chairman and the board and taken into account in the process for recruitment of a new non-executive director.

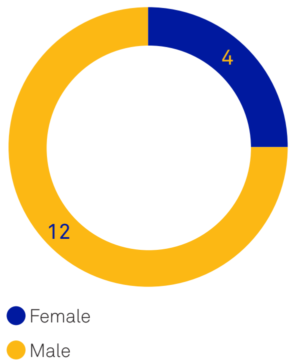
Kevin Whiteman
Chairman of the nominations committee

15 June 2022

Board gender diversity

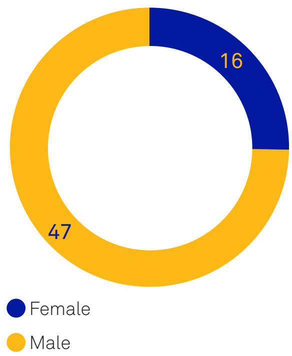


Senior management* gender diversity



* Senior management comprises the board and the executive committee.

Executive committee direct reports gender diversity



DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT TOGETHER WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 26 MARCH 2022.

MARK SANDERSON
COMPANY SECRETARY

Overview

As permitted by legislation, some of the matters normally included in this report have instead been included in the strategic report on pages 20 to 53, 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 110 to 121 is incorporated in this report by reference.

There have been no significant events since the balance sheet date.

Directors

The present membership of the board is set out on pages 104 to 105.

The other significant commitments of the chairman consist of acting as chairman of NG Bailey.

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 pages 140 to 141.

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 2022, 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 Ltd	29,851,481	9.64
2. JO Hambro Capital Management	25,216,899	8.15
3. Chelverton Asset Management	24,513,305	7.92
4. Unicorn Asset Management	22,100,000	7.14
5. Threadneedle Asset Management Ltd	19,203,537	6.20
6. BennBridge Ltd	16,279,803	5.26
7. Invesco (including Perpetual & Trimark)	16,238,865	5.25
8. Legal & General Investment Management	16,033,415	5.18

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 26 March 2022, there were 309,523,061 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 2022 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 1 September 2021, 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 2022 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 1 September 2021, 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 2022 AGM (or, if earlier, until the close of business on 24 September 2022).

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 1 September 2021, 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 2022 AGM (or, if earlier, until the close of business on 24 September 2022). During the period, the directors did not use these powers.

DIRECTORS' REPORT

Dividends

The directors declared an interim dividend for the six months ended 25 September 2021 of 1.2p per ordinary share (2021:1.1p per ordinary share).

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 December 2026 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 53.

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 38 to 39
- Respect for human rights – page 85
- Social matters – page 85
- Equal opportunities (including for the disabled) – page 85
- Environmental matters – pages 59 to 85
- Greenhouse gas emissions – pages 72 to 77
- Long-term incentive plans – page 146 of the directors' remuneration report
- Statement of directors' interests – page 147 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
- TCFD recommendations - pages 59 to 69

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 26 March 2022. KPMG LLP has expressed its willingness to continue in office as external auditor and a resolution to appoint it will be proposed at the forthcoming AGM.

Annual general meeting

The notice concerning the AGM on Thursday 8 September 2022, 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 128 to 130 inclusive was approved by the board and signed on its behalf by:

Mark Sanderson
Company secretary

15 June 2022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DIRECTORS' REMUNERATION REPORT

THE COMMITTEE SEEKS TO APPLY THE REMUNERATION POLICY FAIRLY AND EFFECTIVELY TO ALIGN THE INTERESTS OF MANAGEMENT WITH THOSE OF OTHER STAKEHOLDERS AND TO REWARD MANAGEMENT FOR DELIVERY OF STRETCHING BUSINESS TARGETS.

ALUN GRIFFITHS
CHAIRMAN OF THE REMUNERATION COMMITTEE

Number of meetings

6

Members

Alun Griffiths (chairman)

Kevin Whiteman

Tony Osbaldiston

Louise Hardy

Rosie Toogood (since her appointment on 16 June 2021)

2022 key considerations

- Setting and reviewing directors' remuneration and benefits, including the basic salary increases across the Group.
- Assessed performance against the bonus targets and the PSP targets for the year ended 26 March 2022.
- Approved exceptional pay award to production staff in September 2021.

Overview

We believe that the remuneration policy operated as intended during the year in providing strong alignment with the interests of our shareholders and other stakeholders. However, the committee noted that this was a year in which the Group made good strategic progress as reflected in the growth of the order book and broadening capability in the nuclear, rail and infrastructure markets, but in which the executive directors received limited pay-out against both short and long-term incentives. The committee will undertake a comprehensive review of the remuneration policy ahead of the shareholder vote scheduled for the 2023 AGM. As part of the review, the committee will consider how to best ensure that the incentive framework motivates and incentivises executive directors to make strategic and operational decisions today which support the long-term growth of the business.

Dear shareholder

As chairman of the remuneration committee, I am pleased to present our directors' remuneration report (the 'report') for the year ended 26 March 2022.

The report is split into the following two sections:

- Part 1, the remuneration policy report, which sets out the remuneration policy for the executive and non-executive directors which was approved at our 2020 AGM, with 94.71 per cent of votes cast in favour; and
- Part 2, the annual report on remuneration, which discloses how the remuneration policy was implemented for the year ended 26 March 2022 and how it will be implemented for the year ending 25 March 2023. The annual report on remuneration will be subject to an advisory shareholder vote at the forthcoming AGM on 8 September 2022.

Performance and reward 2022

2022 has been another challenging financial year for the Group and all its stakeholders. The Group has continued to perform strongly despite difficult market conditions significantly influenced by inflationary pressures and, towards the end of the financial year, events in Ukraine. Notwithstanding these challenges, the Group has delivered on strategic and operational priorities during the year, resulting in a strong forward order book, a strengthened position in new markets and is well positioned to take advantage of longer-term growth opportunities. This is testament to the quality and commitment of our executive leadership team. However, despite best efforts, there has been no pay-out for our UK-based executive directors on the profit element of bonuses and no PSP awards vested (for the second year in succession), based on the outcome of performance targets. Whilst the remuneration committee considers that the executive directors have performed strongly throughout recent years, we

determined that it was not appropriate to apply discretion to adjust the formulaic vesting outcomes when considering the experience of shareholders and other stakeholders in the round.

Annual bonus outcome

As in previous years, executive directors were granted an annual bonus opportunity equal to 100 per cent of salary in line with the remuneration policy. Eighty per cent of the award was based on PBT performance and 20 per cent based on safety performance.

For the UK-based executive directors, Group PBT performance was below the threshold target but safety performance was, however, such as to earn an overall bonus outcome of 17 per cent of salary, 50 per cent of which is deferred into shares for three years.

Derek Randall, as managing director of the Indian joint venture ('JSSL'), is assessed on Group PBT and JSSL PBT (split 50:50) and JSSL AFR in relation to safety performance. On-target JSSL PBT was achieved and the AFR target was achieved. Therefore, Derek Randall earned a bonus equal to 41 per cent of salary, 50 per cent of which is deferred into shares for three years.

PSP vesting

The 2019 PSP awards capable of vesting in June 2022 will lapse in full as the threshold EPS target (which equated to PBT of £31m) for the 2022 financial year was not met.

Implementation of policy for 2023

Base salaries and fees

Salaries for the executive directors were reviewed in June 2022 and have been increased by 4% in line with overall salary increases for the wider workforce.

Annual bonus

The maximum annual bonus opportunity is 100 per cent of salary. 80 per cent of the award is based on PBT performance and 20 per cent based on safety performance. The PBT performance targets will reflect the levels of internal growth forecast as well as the continued market uncertainty in light of the COVID-19 pandemic, inflationary pressures and recent events in Ukraine. The committee reviewed the balance of PBT and safety performance measures, as well as the appropriateness of each measure, and considers that these remain appropriate for the year ahead.

PSP

Awards of 100 per cent of salary will be made for the chief executive officer and the chief operating officer and 75 per cent of salary for other executive directors. The performance targets are intended to incentivise management to maintain momentum and will require the Group to deliver EPS in 2025 which equates to a PBT range of £31.5m to £38.0m. Further details are set out on page 145.

Update on pension alignment

This year we accelerated further the timetable towards full alignment of executive directors' pension allowances to the level available to the entire UK workforce, by reducing their allowance to 12 per cent in April 2022 ahead of full alignment by 1 January 2023.

Remuneration policy review

The current remuneration policy was approved by shareholders at the 2020 AGM and is now approaching the end of its three-year term. During the coming year, the remuneration committee will undertake a comprehensive review of the remuneration policy and incentive framework for executive directors and senior management to ensure that it remains fit for purpose. In particular, whilst conscious of the external environment, the committee will consider whether the Group's current remuneration offering is market competitive and supports delivery of the Group's strategic priorities and future growth. The committee will seek consultation with our major shareholders on any proposed material changes.

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. We strongly believe that the decisions made during the year were appropriate in this regard.

I hope you find this report to be clear and simple, providing the rationale for our decisions that is helpful in understanding our remuneration policy and practices.

I look forward to answering any questions shareholders might have, and your continued support.

Alun Griffiths
Chairman of the remuneration committee

15 June 2022[1]

[1] This report complies with the provisions of the Companies Act 2006, the Large and Medium-sized Companies and Groups Regulations 2008 as amended in 2013, the UK Corporate Governance Code 2018 and the UKLA Listing Rules and the Disclosure and Transparency Rules. The remuneration committee has also taken into consideration guidelines published by institutional investor advisory bodies such as the Investment Association and ISS.

DIRECTORS' REMUNERATION REPORT

Part 1 – Remuneration Policy

The remuneration policy was approved at the 2020 AGM. Provided for information only are the details of the policy that were referenced in the committee's activities over the past reporting year which includes the remuneration policy table, the recruitment remuneration arrangements, the executive director service contracts and terms and conditions for non-executive directors.

The full policy report, as approved by shareholders, can be found from page 121 onwards of the 2020 annual report. The Company's remuneration policy supports the business strategy by ensuring that the overall remuneration package is set at a competitive level whilst ensuring that additional reward is only paid for high performance over a sustained period.

The key principles of the policy are:

- Clarity: maintain transparency of our competitive total remuneration structure that is driven by our business strategy and model, focuses on sustained long-term value creation whilst ensuring that high safety standards are achieved and is aligned with the interests of shareholders;
- Predictability: to ensure that targets set each year result in stretching ambitions and that the scale of the reward is proportionate;
- Support the Group's business strategy: a reward package that balances short and long-term performance, rewarding Group and personal performance;
- Simplicity: ensure the remuneration structure avoids unnecessary complexity;
- Risk is appropriately managed. The remuneration of executive directors provides an appropriate balance between fixed and performance-related pay elements: restraint on fixed pay, with a substantial proportion of total remuneration based on variable pay linked to performance;
- Alignment: the remuneration principles encourage behaviour that the committee expects; and
- Proportionality: the link between individual awards, the delivery of strategy and the long-term performance of the Group is clear.

Remuneration policy table for executive directors

The following table sets out each element of the remuneration policy for the executive directors, explaining how each element operates and links to the business strategy.

Base salaries	
Purpose and link to strategy	
To provide the core reward for the role recognising knowledge, skills and experience, in addition to the size and scope of the role. Sufficient to recruit and retain directors of the calibre necessary to execute the Group's strategy.	
Operation	
Base salaries are normally reviewed annually by the committee, with changes typically effective from 1 July. Base salaries are pensionable. Our review takes into account levels of increase across the broader workforce, changes in responsibility, and a periodic remuneration review of comparable companies.	
Maximum opportunity	**Performance conditions**
There is no prescribed maximum base salary or salary increase. Current salaries are disclosed in the annual report on remuneration. Salary increases are awarded at the discretion of the committee. Salary increases (in percentage of salary terms) will ordinarily be considered in relation to those applied to the broader employee population. The committee retains discretion to award a lower or a higher increase to recognise, for example, significant changes in the scope and/or responsibilities of the role, a material change in the size and scale of the Group and/or to take account of relevant market movements. Where an executive director's salary is set below market levels at appointment, a series of increases may be given (in addition to the factors listed above) in order to achieve the desired salary positioning, subject to satisfactory individual performance.	None, although the committee considers individual salaries each year having due regard to the factors noted in operation of the policy. No recovery provisions apply to salary.

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 aligned with the level available to the entire UK workforce by 31 December 2022 as follows:	No recovery provisions apply to pension benefits.

	1 April 2022	1 Jan 2023
CEO	12%	UK workforce
Others	12%	level

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. 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 144.

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. 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 the executive director leaves for alternative employment at a competitor.
PSP	Outstanding awards will lapse unless deemed a 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 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.

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.

Executive directors' service agreements
All executive directors' service agreements run on a rolling basis. Notice periods of 12 months are required to be given by all parties. Payment to be made in lieu of notice on termination is equal to 12 months' salary or to any proportion of unexpired notice period.

Full details of the contracts of each director, including the date, unexpired term and any payment obligations on early termination, are available from the Company secretary at the annual general meeting.

How are the non-executive directors paid?

The chairman and non-executive directors receive an annual fee (paid in monthly instalments by payroll). The fee for the chairman is set by the remuneration committee and the fees for the non-executive directors are approved by the board, on the recommendations of the chairman and the chief executive officer.

Element	Purpose and link to strategy	Operation (including maximum levels)
Fees	To attract and retain a high-calibre chairman and non-executive directors by offering market competitive fee levels.	• Current fee levels are disclosed in the annual report on remuneration. • The chairman and the other non-executive directors receive a basic board fee, with supplementary fees payable for additional board responsibilities. • Non-executive directors will be reimbursed for any normal business-related expenses and any taxable benefit implications that may result. • The non-executive directors do not participate in any of the Group's incentive arrangements or pension scheme. • The fee levels are normally reviewed on a periodic basis, and may be increased, taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Fee increases may be greater than those of the wider workforce in a particular year, reflecting the periodic nature of increases and that they take into account changes in responsibility and/or time commitments. • Additional fees may be payable to reflect exceptional time commitments. • No benefits or other remuneration are provided to non-executive directors.

What are the terms of appointment of the non-executive directors?

The chairman's and non-executive directors' terms of appointment are recorded in letters of appointment. The required notice from the Company is one month in all cases. The non-executive directors are not entitled to any compensation on loss of office. Appointments are subject to annual re-election by shareholders at the AGM.

DIRECTORS' REMUNERATION REPORT

Part 2 – Annual remuneration report

In this section, we report on the implementation of our policies in the year ended 26 March 2022 as well as how the policy will be implemented for 2023. The regulations require the auditor to report to the Group's shareholders on the auditable part of the directors' remuneration report and to state whether, in its opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The relevant sections subject to audit have been highlighted in the annual report on remuneration.

Implementation of policy for 2022

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
Louise Hardy	6/6
Kevin Whiteman	6/6
Tony Osbaldiston	6/6
Rosie Toogood	2/2

The Group considers all members of the committee to be independent. Executive directors may attend remuneration committee meetings at the invitation of the committee chairman, but do not take part in any discussion about their own remuneration. The Company secretary acts as the secretary to the remuneration committee.

The terms of reference for the remuneration committee are available on the Company's website.

Shareholder engagement

The committee engages directly with major shareholders where it considers there to be material changes to the remuneration policy or executive remuneration framework.

Consideration of conditions and pay levels for the workforce and workforce engagement on executive pay

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. This includes giving employees the opportunity through the MyVoice forum to challenge how executive remuneration is aligned with the wider company pay policy.

Advisers to the committee

Wholly independent and objective advice on executive remuneration is received from the committee's external advisers.

Deloitte were appointed in December 2020 following a tender organised by the committee. Deloitte is one of the founding members of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Fees charged by Deloitte provided to the committee for the year ended 26 March 2022 amounted to £19,875 (excluding VAT).

Directors' earnings for the 2022 financial year (audited)

Remuneration received by the directors

£000	Salary	Fees	Benefits	Pension	Total fixed pay	Bonus	LTIPs	Total variable pay	Total
					Year ended 26 March 2022				
Executives									
Alan Dunsmore	369	–	19	70	**458**	63	–	**63**	**521**
Ian Cochrane	328	–	16	49	**393**	56	–	**56**	**449**
Derek Randall	270	–	40	46	**356**	111	–	**111**	**467**
Adam Semple	252	–	16	43	**311**	43	–	**43**	**354**
Non-executives									
Kevin Whiteman	–	140	–	–	**140**	–	–	**–**	**140**
Alun Griffiths	–	60	–	–	**60**	–	–	**–**	**60**
Tony Osbaldiston	–	53	–	–	**53**	–	–	**–**	**53**
Louise Hardy	–	53	–	–	**53**	–	–	**–**	**53**
Rosie Toogood (appointed 16 June 2021)	–	36	–	–	**36**	–	–	**–**	**36**
	1,219	**342**	**91**	**208**	**1,860**	**273**	**–**	**273**	**2,133**

Taxable benefits include the provision of company cars, fuel for company cars, car, accommodation and living allowances and private medical insurance. LTIPs reflect those PSP awards expected to lapse based on performance to 26 March 2022.

Directors' earnings for the 2021 financial year (audited)

£000	Salary	Fees	Benefits	Pension	Total fixed pay	Bonus	LTIPs	Total variable pay	Total
					Year ended 27 March 2021				
Executives									
Alan Dunsmore	364	–	19	73	**456**	291	–	**291**	**747**
Ian Cochrane	324	–	16	50	**390**	259	–	**259**	**649**
Derek Randall [1]	267	–	79	50	**396**	213	–	**213**	**609**
Adam Semple	246	–	16	44	**306**	197	–	**197**	**503**
Non-executives									
Kevin Whiteman [2]	–	91	–	–	**91**	–	–	**–**	**91**
Alun Griffiths [3]	–	48	–	–	**48**	–	–	**–**	**48**
Tony Osbaldiston	–	45	–	–	**45**	–	–	**–**	**45**
Louise Hardy	–	40	–	–	**40**	–	–	**–**	**40**
John Dodds (resigned 3 September 2020)	–	54	–	–	**54**	–	–	**–**	**54**
	1,201	**278**	**130**	**217**	**1,826**	**960**	**–**	**960**	**2,786**

Taxable benefits include the provision of company cars, fuel for company cars, car, accommodation and living allowances and private medical insurance. LTIPs reflect those PSP awards which lapsed based on performance to 27 March 2021.

1 £22,317 of the cost of living allowance paid to Derek Randall related to FY20 but was wholly paid in FY21.

2 Kevin Whiteman was appointed as chairman on 3 September 2020.

3 Alun Griffiths was appointed as senior independent director on 1 October 2020.

Base salary increases received by the directors

The directors received a 1 per cent salary increase effective from 1 July 2021, which was broadly in line with that received by office staff but less than that received by production staff.

Past directors/loss of office payments (audited)

There have been no payments made to past directors/loss of office during the year.

DIRECTORS' REMUNERATION REPORT

How pay linked to performance in 2022 (audited)

Bonus

As in previous years, executive directors were granted an annual bonus opportunity equal to 100 per cent of salary in line with the remuneration policy. 80 per cent of the award was based on PBT performance and 20 per cent based on safety performance.

The targets and the performance against these targets are set out below:

For all directors (excluding Derek Randall)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus	Payout as % of salary
Group PBT*	80%	£28.6m	£30.1m	£33.1m	£27.1m	0%	0%
Group IFR**	20%	above 1.48	below 1.48	below 1.29	1.32	85%	17%
							17%

* For Group PBT, 'threshold' represents 0 per cent, 'on-target' represents 50 per cent and 'maximum' represents 100 percent of the bonus opportunity.

** For Group IFR, 'threshold' represents 0 per cent, 'on-target' represents 50 per cent and 'maximum' represents 100 per cent of the bonus opportunity. Actual performance excludes DAM Structures, which was acquired by the Group in February 2021 and which was not included when the targets were set as no comparable data was available. Performance of DAM Structures will be included for the calculation of the 2023 target.

Derek Randall (JSSL managing director)

Measure	% of maximum bonus opportunity	Threshold	On-target	Maximum	Actual	% of bonus	Payout as % of salary
Group PBT *	40%	£28.6m	£30.1m	£33.1m	£27.1m	0%	0%
JSSL (India) PBT*	40%	7.5 Cr	10.4 Cr	20.0 Cr	10.9 Cr	53%	21%
JSSL (India) AFR**	20%	Above 0.11	Below 0.11	Below 0.09	0.00	100%	20%
							41%

* Derek Randall's profit-based component is split 50:50 between Group PBT and JSSL PBT. For Group PBT and JSSL PBT, 'threshold' represents 0 per cent, 'on-target' represents 50 per cent and 'maximum' represents 100 per cent of the bonus opportunity.

** For JSSL AFR, no 'threshold' or 'on-target' targets were set. 100 per cent of the bonus opportunity is earned on achieving a score of below 0.09.

The executive directors will receive the bonuses set out in the table below, of which 50 per cent will be paid in shares deferred for three years.

Alan Dunsmore	£62,648
Ian Cochrane	£55,793
Derek Randall	£110,641
Adam Semple	£42,819

PSP awards vesting in 2022

- The 2019 PSP awards were capable of vesting in June 2022, subject to the achievement of an EPS performance condition measured over the three financial years ended 26 March 2022. The threshold EPS target required for vesting of 25 per cent of the award was 8.41p which equated to a PBT of £31m. The actual PBT achieved was £27.1m, which equated to EPS of 7.2p and therefore the awards will lapse in full, for the second successive year.

As explained in the chairman's statement on page 133, no discretion was applied by the committee to adjust the formulaic vesting outcome of the annual bonus or PSP awards.

Deferred bonus awards granted in 2022 (audited)

On 28 June 2021 the committee made the following awards under the Group's Deferred Share Bonus Plan to executive directors in relation to the 2021 bonus outcome. The awards will vest on 28 June 2024, subject to continued employment.

Name	Type	Number of shares	Face value of shares[1]	Vesting date
Alan Dunsmore	Nil–cost option	183,032	£145,510	28 June 2024
Ian Cochrane	Nil–cost option	163,106	£129,670	28 June 2024
Derek Randall	Nil–cost option	134,137	£106,639	28 June 2024
Adam Semple	Nil–cost option	123,899	£98,500	28 June 2024

[1] Face value calculated using the average mid-market share price for 24 and 25 June 2021 (79.50p).

PSP awards granted in 2022 (audited)

Awards were granted in June 2021 equal to 100 per cent of salary for the chief executive officer and the chief operating officer and 75 per cent of salary for other executive directors. The targets set are intended to incentivise management to maintain forward momentum and will require the Group to deliver EPS which equates to a PBT range of £30m to £40m for the financial year 2024. The committee considers that this represents a vesting range which is realistic, whilst remaining appropriately stretching, particularly in the context of current expectations of the external market over the next performance cycle.

Details of the awards made to the executive directors are summarised below.

Name	Type	Number of shares	% of salary	Face value (£)[1]	Performance condition[2]	Performance period	% vesting at threshold
Alan Dunsmore	Nil–cost option	451,319	100%	£365,568	EPS	3 financial years ending 30 March 2024	25%
Ian Cochrane	Nil–cost option	402,188	100%	£325,772			
Derek Randall	Nil–cost option	246,850	75%	£199,948			
Adam Semple	Nil–cost option	231,481	75%	£187,500			

1 Face value calculated based on the pre-grant date share price of 81p on 16 June 2021.

2 Performance conditions are based on underlying EPS targets of 7.61p (minimum performance – 25% vests) to 9.92p (maximum performance – 100% vests) with linear interpolation in between. This represents a PBT range of £30m-£40m.

The committee retains discretion to adjust the formulaic vesting outcome if it is not considered to be appropriate, taking into account wider Group performance during the performance period. This includes consideration of any 'windfall gains' at the point of vesting. In assessing whether there is any 'windfall gain', the committee will take into account a number of factors, including share price performance over the vesting period, financial performance of the business, and any significant events which have impacted the Company's share price or market as a whole.

DIRECTORS' REMUNERATION REPORT

Outstanding share awards at the year-end (audited)

Details of share awards under the PSP to the executive directors which were outstanding at the year-end are shown in the following table:

Director	Year of award	Vesting date*	Performance condition	Awards held at 28 March 2021	Awards granted in year	Awards lapsed in year	Awards vested in year	Awards held at 26 March 2022
Alan Dunsmore	2018	2021	EPS	414,692	–	(414,692)	–	–
	2019	2022	EPS	490,196	–	–	–	490,196
	2020	2023	EPS	529,809	–	–	–	529,809
	2021	2024	EPS	–	451,319	–	–	451,319
Total				**1,434,697**	**451,319**	**(414,692)**	**–**	**1,471,324**
Ian Cochrane	2018	2021	EPS	360,556	–	(360,556)	–	–
	2019	2022	EPS	436,835	–	–	–	436,835
	2020	2023	EPS	472,133	–	–	–	472,133
	2021	2024	EPS	–	402,188	–	–	402,188
Total				**1,269,524**	**402,188**	**(360,556)**	**–**	**1,311,156**
Derek Randall	2018	2021	EPS	222,372	–	(222,372)	–	–
	2019	2022	EPS	269,433	–	–	–	269,433
	2020	2023	EPS	291,210	–	–	–	291,210
	2021	2024	EPS	–	246,850	–	–	246,850
Total				**783,015**	**246,850**	**(222,372)**	**–**	**807,493**
Adam Semple	2018	2021	EPS	195,498	–	(195,498)	–	–
	2019	2022	EPS	231,092	–	–	–	231,092
	2020	2023	EPS	271,739	–	–	–	271,739
	2021	2024	EPS	–	231,481	–	–	231,481
Total				**698,329**	**231,481**	**(195,498)**	**–**	**734,312**
				4,185,565	**1,331,838**	**(1,193,118)**	**–**	**4,324,285**

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

	Threshold (25% vests)	Maximum (100% vests)
2019 award[1]	8.41p	10.39p
2020 award[2]	6.57p	8.36p
2021 award[3]	7.61p	9.92p

1 Represents a PBT range of £31.0m - £38.3m. These awards will lapse in full as threshold EPS performance was not achieved.

2 Represents a PBT range of £25.5m - £32.5m.

3 Represents a PBT range of £30.0m - £40.0m

* Vesting date is June in the relevant years other than 2023 when it is December.

Statement of directors' shareholding (audited)

As at 26 March 2022, 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 26 March 2022[1]
Alan Dunsmore	200%	253%
Ian Cochrane	200%	437%
Derek Randall	150%	265%
Adam Semple	150%	62%

1 Value of actual share ownership was calculated with reference to the closing mid-market share price at 26 March 2022 of 67.00p. Actual share ownership includes DSBP shares granted but still within the three-year deferral period and/or unexercised.

Directors' current shareholdings (audited)

The following table provides details on the directors' beneficial interests in the Company's share capital as at 26 March 2022.

	Owned shares[1]	Share incentive plan (SIP)[2]	Sharesave scheme	DSBP[3]	PSP[4]	Total[5]
Executives						
Alan Dunsmore	1,170,257	9,928	19,073	428,070	1,471,324	**3,098,652**
Ian Cochrane	1,941,790	9,928	27,237	381,469	1,311,156	**3,671,580**
Derek Randall	835,988	–	–	410,132	807,493	**2,053,613**
Adam Semple	84,667	–	19,073	283,193	734,312	**1,121,245**
Non-executives						
Kevin Whiteman	65,619	–	–	–	–	**65,619**
Alun Griffiths	50,000	–	–	–	–	**50,000**
Tony Osbaldiston	–	–	–	–	–	**–**
Louise Hardy	–	–	–	–	–	**–**
Rosie Toogood	–	–	–	–	–	**–**

1 Includes shares owned by connected persons and excludes DSBP shares granted but still within the three-year deferral period.

2 SIP shares are unvested and held in trust.

3 The principal terms of the deferred share bonus plan are described on page 137.

4 PSP shares are in the form of conditional awards which will only vest on the achievement of certain performance conditions. The total includes 2019 awards which had not actually lapsed as at 26 March 2022.

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. There have been no changes in the directors' beneficial interests in trusts holding ordinary shares of the Company.

Position against dilution limits

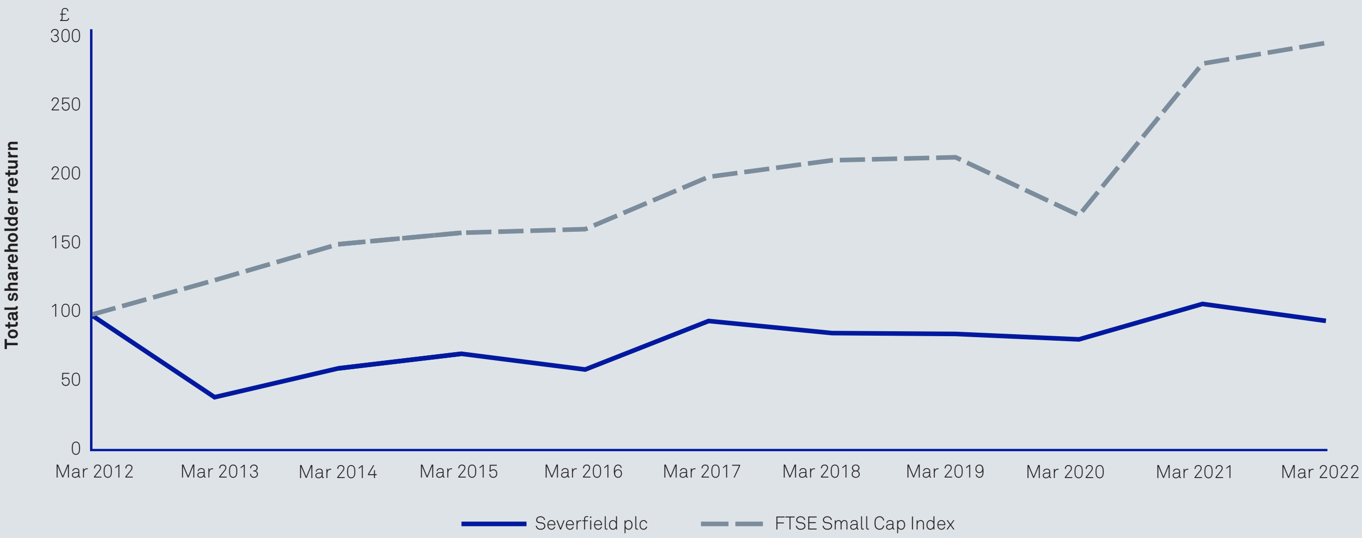
Severfield plc complies with the Investment Association's principles of executive remuneration. These principles require that commitments under all of the Group's share ownership schemes (including the share incentive plan ('SIP'), sharesave scheme and the PSP) must not exceed 10 per cent of the issued 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 was operating within these limits as at 26 March 2022.

DIRECTORS' REMUNERATION REPORT

Performance graph

The following graph shows the Group's performance, measured by total shareholder return, compared with the performance of the FTSE Small Cap Index. It is based on the change in the value of a £100 investment made on 1 April 2012 over the ten-year period ended 26 March 2022.

This index was selected as it represents a broad equity market index and is considered to be the most appropriate comparator group of companies over a ten-year period commencing April 2012.



Chief executive officer remuneration change

The table below shows the total remuneration figure for the chief executive officer role over the same ten-year period. Total remuneration includes bonuses and the value of PSP awards which vested based on performance in those years (at the share price at which they vested).

	2013 Haughey[1]	2013 Dodds[2,3]	2014 Dodds[2]	2014 Lawson[4]	2015 Lawson	2016 Lawson	2017 Lawson	2018 Lawson[5]	2018 Dunsmore[6]	2019 Dunsmore	2020 Dunsmore	2021 Dunsmore	2022 Dunsmore
Total remuneration (£000)	450	62	289	233	681	946	1,228	738	819	890	880	747	521
Annual bonus (%)	–	N/A	N/A	34.0%	65.0%	63.0%	95.0%	–	62.6%	20.0%	61.0%	80.0%	17%
LTIP vesting (%)	–	N/A	N/A	–	–	64.0%	74.0%	95.4%	95.4%	100.0%	85.0%	–	–

1 Tom Haughey received compensation of £423,000 for loss of office in accordance with his contract.

2 John Dodds was appointed executive chairman in an interim capacity following Tom Haughey's resignation as chief executive officer on 23 January 2013 and prior to the appointment of Ian Lawson as chief executive officer on 1 November 2013. During this time he was awarded a discretionary bonus (no maximum was set) but not entitled to any PSP award. These figures do not include his fees as non-executive chairman.

3 Financial year 2013 represented the 15 month period to 30 March 2013.

4 Appointed on 1 November 2013.

5 Ian Lawson received compensation of £408,000 for loss of office in accordance with his contract.

6 Alan Dunsmore operated as interim chief executive officer from 1 April 2017 to 31 January 2018, during Ian Lawson's absence due to physical ill health. Alan's appointment to this role was made permanent from 1 February 2018. The figures in the table above represent Ian Lawson's remuneration for this period and Alan Dunsmore's remuneration for the period in which he was both interim and permanent chief executive officer.

How the change in directors' pay for the year compares to that of the Group's employees

The table below shows the percentage change in salary, benefits and annual bonus earned for the directors compared to the percentage change of each of those components of pay of the employees of the Group (calculated by reference to the mean on employee pay on a full-time equivalent basis).

Comparison between 2022 and 2021	Base salary/ fees	Benefits	Annual bonus
Alan Dunsmore	1%	0%	(78%)
Ian Cochrane	1%	0%	(78%)
Derek Randall[1]	1%	(49%)	(41%)
Adam Semple	2%	0%	(78%)
Kevin Whiteman	53%	–	–
Alun Griffiths	26%	–	–
Tony Osbaldiston	18%	–	–
Louise Hardy	33%	–	–
Rosie Toogood[2]	n/a	n/a	n/a
All UK employees	4%	16%	(67%)

Comparison between 2021 and 2020	Base salary/ fees	Benefits	Annual bonus
Alan Dunsmore	2%	0%	33%
Ian Cochrane	2%	0%	33%
Derek Randall	2%	0%	15%
Adam Semple	7%	0%	38%
Kevin Whiteman[3]	103%	–	–
Alun Griffiths	6%	–	–
Tony Osbaldiston	0%	–	–
Louise Hardy	0%	–	–
All UK employees	2%	0%	6%

1 Derek Randall's FY21 benefit included £40,000 of cost of living allowance relating to FY20 but wholly paid in FY21.

2 Rosie Toogood was appointed to the board on 16 June 2021.

3 Kevin Whiteman was appointed as chairman on 3 September 2020

Chief executive officer pay ratio disclosure

Year	Method of calculation adopted	25th percentile pay ratio (CEO: UK employees)	Median pay ratio (CEO: UK employees)	75th percentile pay ratio (CEO: UK employees)
2022	Option A[1]	19:1	13:1	10:1
2021	Option A[1]	25:1	18:1	14:1
2020	Option A[1]	30:1	22:1	17:1

1 Option A methodology was selected on the basis that it is a robust approach and is preferred by shareholders and proxy voting agencies. The calculations for the representative employees were performed at the final day of the relevant financial year.

A substantial proportion of the chief executive officer's total remuneration is performance related and delivered in shares. The ratios will therefore depend significantly on the chief executive officer's annual bonus and PSP outcomes and may fluctuate year-to-year.

The median ratio of 13:1 is 28 per cent lower than the median ratio of 18:1 in 2021. This reduction in the chief executive officer pay ratio mainly reflects the chief executive officer receiving a 17 per cent annual bonus in 2022 (2021: 80 per cent).

The committee has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

DIRECTORS' REMUNERATION REPORT

Total pay and benefits used to calculate the ratios

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

	Chief executive officer	25th percentile	Median	75th percentile
Year 2022	£000	£000	£000	£000
Salary	369	23	38	45
Total pay and benefits	521	28	40	54
Year 2021				
Salary	364	29	37	49
Total pay and benefits	747	29	41	53
Year 2020				
Salary	356	26	38	48
Total pay and benefits	880	29	40	51

The UK employee percentile total pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year for the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and LTIPs) for all UK-based employees of the Group as at the last day of the relevant financial year. The calculations are on the same basis as required for the chief executive officer's remuneration for single figure purposes. The committee selected this methodology as it was felt to produce the most statistically accurate result.

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:

	2022 £000	2021 £000	% change
Staff costs	**86,034**	75,630	13.8%
Revenue	**403,563**	363,254	11.1%
Underlying[1] operating profit	**26,881**	25,470	5.5%
Dividends	**9,229**	8,895	3.8%

There were no share buybacks during the year.

Shareholder voting

The results below show the response to the 2021 AGM shareholder voting for the directors' 2020 remuneration report (excluding remuneration policy):

	Total number of votes	% of votes cast
For	248,106,442	99.91
Against	232,819	0.09
Total votes cast (for and against)	248,339,261	100
Withheld votes	54,717	n/a
Total votes (including withheld votes)	248,393,978	n/a

The results below show the response to the 2020 AGM shareholder voting for the directors' 2020 remuneration policy:

	Total number of votes	% of votes cast
For	239,038,916	94.71%
Against	13,347,225	5.29%
Total votes cast (for and against)	252,386,141	100%
Withheld votes	1,565,800	N/A
Total votes (including withheld votes)	253,951,941	N/A

[1] See note 32 for APM definitions.

Implementation of policy for 2023

The executive directors' salaries
The executive directors' salaries at the start of the 2023 financial year are as follows:

	£
Alan Dunsmore	£369,500
Ian Cochrane	£329,000
Derek Randall	£270,500
Adam Semple	£252,500

Salaries for the executive directors were reviewed in June 2022 and have been increased by four per cent with effect from 1 July 2022, in line with the overall salary increases for the wider workforce.

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.

Pension opportunity for all executive directors was reduced to 12 per cent, with effect from 1 April 2022 and, as disclosed on page 136, executive pension contribution levels will be aligned with the level available to the entire UK workforce by 1 January 2023.

Rewards for performance in 2023

Bonus
The maximum opportunity is set at 100 per cent of salary for executive directors in line with the remuneration policy. The performance measures are as follows:

Profit performance-based component — 80 per cent
Maximum bonus based on actual PBT versus budget.

The committee believes that the threshold and maximum targets (as a percentage of budget) are appropriately positioned, taking into account levels of growth forecast in the board's strategy review in December 2021 and external analyst consensus.

PBT % of budget	% of award
95 or below	–
100	50
110 or better	100

Sliding scale applies between points.

Safety performance-based component — 20 per cent
Group IFR (incident frequency rate)[†]. IFR and AFR are industry-recognised and measurable targets.

[†] Whilst Derek Randall remains in India the safety component of his bonus will be based on AFR (India).

The committee believes that the PBT, IFR and AFR targets are commercially sensitive metrics and therefore are not disclosed at this time. Actual target figures will be disclosed on a retrospective basis when these sensitivities have been removed.

DIRECTORS' REMUNERATION REPORT

PSP

It is the committee's intention to grant PSP awards of 100 per cent of salary to the chief executive officer and the chief operating officer and 75 per cent of salary to the Group finance director and the JSSL managing director. The awards will be subject to the following three-year EPS performance targets:

EPS performance for three-year period ending 29 March 2025	Vesting (% maximum)
Equal to or less than 7.5p (equivalent to PBT of £31.5m)	0%
Between 7.5p and 8.8p (equivalent to PBT between £31.5m and £38.0m)	Between 25% and 100%
Equal to 8.8p or better (equivalent to PBT of £38.0m)	100%

Sliding scale applies between points.

When setting this target range, the committee considered a number of reference points, including internal financial forecasts, external analyst consensus, the base EPS and a broad view of the wider construction industry. The committee considers the targets to be appropriately stretching given that, notwithstanding our record order book, medium-term prospects for growth could be impacted by significant rises in raw material prices (notably for steel), increased labour and overhead costs and the war in Ukraine. As a result, it is appropriate that the committee reviewed the assumptions used one year ago when the targets for the 2021 awards were set. At that time, we determined that the performance range for that award would be between £30.0m (the entry gate) and £40.0m (the maximum gate). As a result, this year we have increased the entry gate by 5 per cent to £31.5m but lowered the maximum gate by 5 per cent to £38.0m.

The committee retains discretion to adjust the formulaic vesting outcome if it is not considered to be appropriate taking into account wider Group performance during the performance period. This includes consideration of any 'windfall gains' at the point of vesting.

How will the non-executive directors be paid in the 2023 financial year?

Salaries for the non-executive directors were reviewed and increased in May 2021. It is proposed that these are benchmarked as part of the triennial policy review that is currently underway. No review is proposed until this work is completed later this year. The fees for the chairman and non-executive directors at the start of the 2023 financial year are as follows:

£	2022	2021
Chairman	**140,000**	140,000
Basic fee for other non-executive directors	**45,000**	45,000
Additional fee for SID role	**7,500**	7,500
Additional fee for chairman of audit and remuneration committees	**7,500**	7,500
Additional fee for workforce engagement director role	**7,500**	7,500

Approval

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

Alun Griffiths
Chairman of the remuneration committee
15 June 2022

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.

Directors' responsibilities statement

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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with UK-adopted International Financial Report Standards ('IFRS') and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards;
- 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.

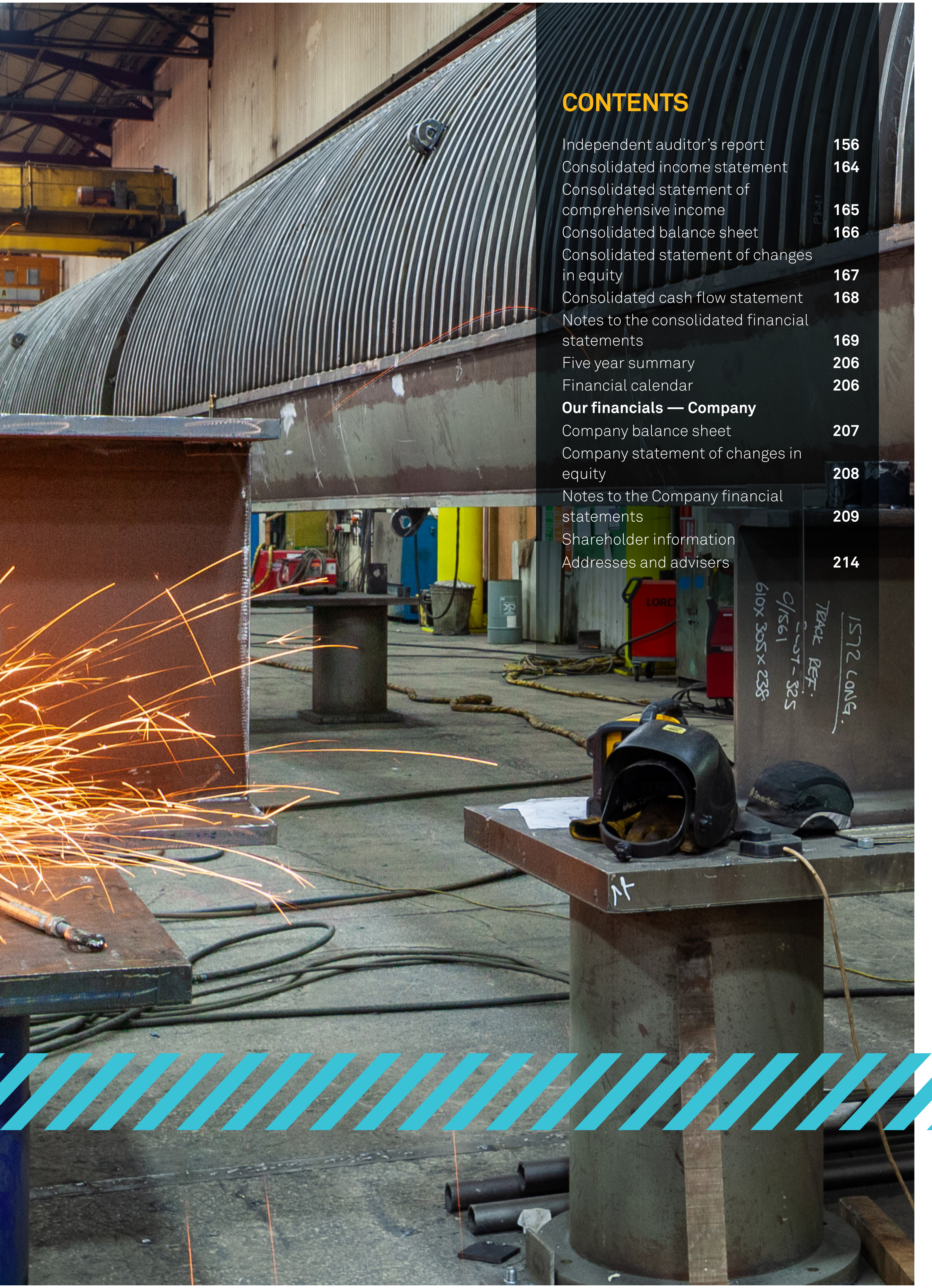
We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the board

Alan Dunsmore
Chief executive officer
15 June 2022

Adam Semple
Group finance director
15 June 2022

OUR FINANCIALS



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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 52 week period ended 26 March 2022 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 26 March 2022 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 2 September 2015. The period of total uninterrupted engagement is for the seven financial periods ended 26 March 2022. 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	£1.4m (2021: £1.2m) 4.9% (2021: 4.9%) of profit before tax	
Coverage	98% (2021: 98%) of Group profit before tax	
Key audit matters		**vs 2021**
Recurring risk	Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts	◀▶
	Carrying value of parent Company's investments in subsidiaries and joint ventures	◀▶

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Carrying value of construction contract assets, and revenue and profit recognition in relation to construction contracts Revenue: £403.6m (2021:£363.3m) Contract assets £75.9m (2021: £16.3m) Refer to page 122 (audit committee report), pages 169 and 177 (accounting policies, judgements and estimates) and note 17 (construction contracts).	**Subjective estimate** The Group's activities are undertaken via long-term construction contracts. The carrying value of the construction contract assets, as well as the revenue and profit recognised, are based on an input measure (being costs incurred to date as a proportion of estimated total contract costs) and estimates of total contract consideration (being agreed contract consideration plus elements of variable consideration such as instances where the value of variations is currently unagreed). Estimated total contract costs, and as a result revenues, can be affected by a variety of uncertainties that depend on the outcome of future events resulting in revisions throughout the contract period. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying value of contract assets, revenue and profit recognised on construction contracts has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Therefore, auditor judgement is required to assess whether the directors' estimates for total forecast costs and variable consideration falls within an acceptable range. The financial statements (note 2.27(a)) disclose the nature and extent of the estimates and judgements made by the Group.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. 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. – **Tests of detail:** For the high risk contracts identified, agreeing uncertain variable consideration to post-period-end cash, post-period-end certification, or customer agreed variation schedules. Involving our own major project advisory specialists to assess the position taken and assist in challenging management on the appropriateness of including such items in the value of contract revenue and contract assets where such evidence was not available; – **Our sector experience:** Assessing forecasted costs to complete in the sample of high risk contracts identified by understanding contract performance and costs incurred post period-end, along with discussion and challenge of management's costs to complete estimates against original budgets and current run rates; – **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; – **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; – **KPMG specialists:** For certain higher risk or larger contracts, utilising KPMG Project specialists to identify the risks and opportunities associated with the contract and develop a range of possible contract out-turns and challenge the appropriateness of revenue recognised and provisions held in relation to these contracts; – **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 (2021: acceptable).

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

	The risk	Our response
Carrying value of parent Company's investments in subsidiaries and joint ventures £152.6m (2021: £152.7m) Refer to page 209 (accounting policy) and page 211 (financial disclosures).	**Low risk, high value** The carrying amount of the parent Company's investments in subsidiaries and joint ventures represents 52% (2021: 51%) 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.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. 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 Company's conclusion that there is no impairment of its investments in subsidiaries to be acceptable (2021: acceptable).

We continue to perform procedures over Going Concern. However, given the successful refinancing and increased facility with significant headroom, we have not assessed this as one of the most significant risks in our current period audit and, therefore, it is not separately identified in our audit report this period.

In the prior period we reported a key audit matter in relation to the provisional valuation of intangibles and contingent consideration, and related disclosures for acquisition of DAM Structures. No acquisitions took place in the current period and as such we have not assessed this as one of the most significant risks in our current period audit and, therefore, it is not separately identified in our audit report this period.

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 £1,375,000 (2021: £1,200,000), determined with reference to a benchmark of Group profit before tax (2021: normalised to exclude amortisation and costs as a result of acquisitions as disclosed in note 5) of which it represents 4.9% (2021: 4.9%).

Materiality for the parent Company financial statements as a whole was set at £900,000 (2021: £1,000,000), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2021: 0.3%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £1,031,000 (2021: £990,000) for the Group and £675,000 (2021: £750,000) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £68,750 (2021: £60,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2021: 12) reporting components, we subjected 6 (2021: 6) to full scope audits for Group purposes.

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

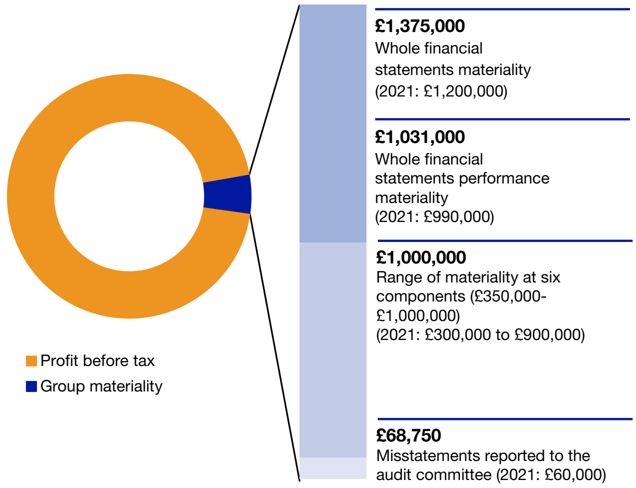
The remaining 7% (2021: 5%) of total Group revenue, 2% (2021: 2%) of Group profit before tax and 4% (2021: 6%) of total Group assets is represented by 5 (2021: 5) reporting components, none of which individually represented more than 3% (2021: 5%) of any of total Group revenue, Group profit before tax or total Group assets. For the 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 £350,000 to £1,000,000 (2021: £300,000 to £900,000), having regard to the mix of size and risk profile of the Group across the components. The work on one of the six components (2021: one of the six components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team.

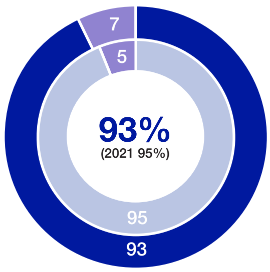
The Group team held video and telephone conference meetings with 1 (2021:1) component location in India (2021: India). At these meetings, the findings reported to the Group team were discussed in more detail. The Group team also reviewed the audit file of the component auditor. The Group team performed procedures on the items excluded from normalised Group profit before tax.

Normalised profit before tax
£27,098,000 (2021: £24,331,000)

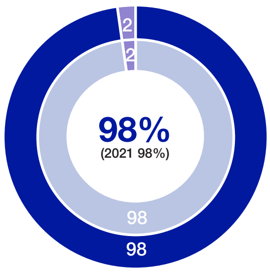
Group Materiality
£1,375,000 (2021: £1,200,000)



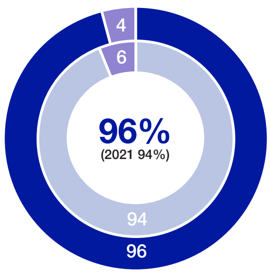
Group revenue



Group profit before tax



Group total assets



- Full scope for Group audit purposes 2021
- Full scope for Group audit purposes 2020
- Residual components

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

4. Climate Change Risk

In planning our audit, we have considered the potential impact of risks arising from climate change on the Group's business and its financial statements. Further information is provided in the Group's Task Force for Climate-related Financial Disclosures ('TCFD') recommended disclosures on page 59.As a part of our audit we have performed risk assessment procedures, including making enquiries of directors and management, reading board meeting minutes and applying our knowledge of the Group and sectors in which it operates to understand the extent of the potential impact of climate change risk on the Group's financial statements.

We continued to challenge the directors to consider climate-related risks in their impairment model, but given the level of headroom in that impairment assessment we have not assessed climate-related risk to be significant to our audit this year. There was no impact on our key audit matters. We have read the Group's TCFD in the annual report and considered consistency with the financial statements and our audit knowledge.

5. Going Concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- current changes in steel prices, and other ongoing economic issues including inflationary pressures and the resulting challenging market.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 53 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included :

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management, including the EPS target for management remuneration

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at a Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, both in the current period and in future periods, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that contract revenue is recognised in an overly optimistic or cautious manner given the subjective nature and risk of bias in the related accounting estimates, and the risk that Group and component management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

Further detail in respect of contract revenue is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual account combinations.
- Procedures over contract revenue performed for all full scope components are detailed in section 2 of this report.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and corruption, employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. 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 period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEVERFIELD PLC

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement (page 54) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 54 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the audit committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the corporate governance statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review and to report to you if a corporate governance statement has not been prepared by the Company. We have nothing to report in this respect.

Based solely on our work on the other information described above:

- with respect to the corporate governance statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the corporate governance statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

8. 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.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 153, the directors are responsible for: the preparation of the financial statements, including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. 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

15 June 2022

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 26 MARCH 2022

	Note	Underlying year ended 26 March 2022 £000	Non-underlying year ended 26 March 2022 £000	Total year ended 26 March 2022 £000	Underlying year ended 27 March 2021 £000	Non-underlying year ended 27 March 2021 £000	Total year ended 27 March 2021 £000
Continuing operations							
Revenue	3	**403,563**	**–**	**403,563**	363,254	–	363,254
Operating costs	4	**(376,682)**	**(5,424)**	**(382,106)**	(337,784)	(2,795)	(340,579)
Operating profit before share of results of JVs and associates		**26,881**	**(5,424)**	**21,457**	25,470	(2,795)	22,675
Share of results of JVs and associates	15	**1,346**	**–**	**1,346**	(344)	–	(344)
Operating profit		**28,227**	**(5,424)**	**22,803**	25,126	(2,795)	22,331
Net finance expense	7	**(1,129)**	**(674)**	**(1,803)**	(795)	(429)	(1,224)
Profit before tax		**27,098**	**(6,098)**	**21,000**	24,331	(3,224)	21,107
Taxation	8	**(4,795)**	**(604)**	**(5,399)**	(4,574)	771	(3,803)
Profit for the year attributable to the equity holders of the parent		**22,303**	**(6,702)**	**15,601**	19,757	(2,453)	17,304
Earnings per share:							
Basic	10	**7.22p**	**(2.17)p**	**5.05p**	6.43p	(0.80)p	5.63p
Diluted	10	**7.19p**	**(2.16)p**	**5.03p**	6.43p	(0.80)p	5.63p

Further details of non-underlying items are disclosed in note 5 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 26 MARCH 2022

	Note	Year ended 26 March 2022 £000	Year ended 27 March 2021 £000
Actuarial gain/(loss) on defined benefit pension scheme*	30	**5,938**	(4,906)
(Losses)/gain taken to equity on cash flow hedges	25	**(22)**	1,699
Reclassification adjustments on cash flow hedges	25	**13**	251
Exchange difference on foreign operations	25	**40**	34
Tax relating to components of other comprehensive income*	20	**(1,184)**	734
Other comprehensive income for the year		**4,785**	(2,188)
Profit for the year from continuing operations		**15,601**	17,304
Total comprehensive income for the year attributable to equity holders of the parent		**20,386**	15,116

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

CONSOLIDATED BALANCE SHEET

AT 26 MARCH 2022

	Note	As at 26 March 2022 £000	As at 27 March 2021 £000
Assets			
Non-current assets			
Goodwill	11	**82,188**	85,782
Other intangible assets	12	**10,343**	9,630
Property, plant and equipment	13	**91,436**	91,698
Right-of-use asset	14	**11,070**	9,808
Interests in JVs and associates	15	**30,136**	28,790
Contract assets, trade and other receivables	18	**4,881**	4,368
		230,054	230,076
Current assets			
Inventories	16	**18,005**	10,231
Contract assets, trade and other receivables	18	**117,859**	67,847
Derivative financial instruments	22	**670**	1,049
Current tax assets		**4,171**	3,584
Cash and cash equivalents	22	**–**	24,983
		140,705	107,694
Total assets		**370,759**	337,770
Liabilities			
Current liabilities			
Cash and cash equivalents	22	**(3,974)**	–
Contract liabilities, trade and other payables	19	**(111,692)**	(77,803)
Financial liabilities – borrowings	22	**(5,900)**	(5,900)
Financial liabilities – leases	22	**(1,756)**	(1,744)
		(123,322)	(85,447)
Non-current liabilities			
Contract liabilities, trade and other payables	19	**(3,081)**	(10,639)
Retirement benefit obligations	30	**(14,396)**	(22,379)
Financial liabilities – borrowings	22	**(8,950)**	(14,850)
Financial liabilities – leases	22	**(9,884)**	(9,365)
Deferred tax liabilities	20	**(7,166)**	(4,161)
		(43,477)	(61,394)
Total liabilities		**(166,799)**	(146,841)
Net assets		**203,960**	190,929
Equity			
Share capital	24	**7,738**	7,706
Share premium		**88,511**	87,658
Other reserves	25	**4,485**	3,464
Retained earnings		**103,226**	92,101
Total equity		**203,960**	190,929

The consolidated financial statements were approved by the board of directors on 15 June 2022 and signed on its behalf by:

Alan Dunsmore
Chief executive officer

Adam Semple
Group finance director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 26 MARCH 2022

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 28 March 2021		**7,706**	**87,658**	**3,464**	**92,101**	**190,929**
Total comprehensive income for the year		**–**	**–**	**32**	**20,354**	**20,386**
Ordinary shares issued*		**32**	**853**	**–**	**–**	**885**
Equity settled share-based payments	23	**–**	**–**	**989**	**–**	**989**
Dividends paid		**–**	**–**	**–**	**(9,229)**	**(9,229)**
At 26 March 2022		**7,738**	**88,511**	**4,485**	**103,226**	**203,960**

* The issue of shares represents shares allotted to satisfy the 2018 and 2020 and Sharesave scheme.

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 29 March 2020		7,648	87,292	1,402	87,333	183,675
Total comprehensive income for the year		–	–	1,984	13,132	15,116
Ordinary shares issued*		58	366	–	–	424
Equity settled share-based payments	23	–	–	78	531	609
Dividends paid		–	–	–	(8,895)	(8,895)
At 27 March 2021		7,706	87,658	3,464	92,101	190,929

* The issue of shares represents shares allotted to satisfy the 2017 Performance Share Plan award which vested in June 2020 and the 2017 sharesave schemes.

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 26 MARCH 2022

	Note	Year ended 26 March 2022 £000	Year ended 27 March 2021 £000
Net cash flow from operating activities	26	**(5,685)**	25,349
Cash flows from investing activities			
Proceeds on disposal of other property, plant and equipment		**376**	104
Purchases of land and buildings		**(2,759)**	(247)
Purchases of intangible assets		**(124)**	(276)
Purchases of other property, plant and equipment		**(2,507)**	(6,097)
Investment in JVs and associates		**–**	(2,444)
Investment in subsidiary entity, net of cash acquired		**(526)**	(17,489)
Net cash used in investing activities		**(5,540)**	(26,449)
Cash flows from financing activities			
Interest paid		**(1,056)**	(699)
Dividends paid		**(9,229)**	(8,895)
Proceeds from shares issued		**885**	424
Proceeds from borrowings		**–**	12,000
Repayment of borrowings		**(5,900)**	(19,375)
Repayment of lease liabilities		**(2,432)**	(1,710)
Net cash used in financing activities		**(17,732)**	(18,255)
Net decrease in cash and cash equivalents		**(28,957)**	(19,355)
Cash and cash equivalents at beginning of year		**24,983**	44,338
Cash and cash equivalents at end of year	27	**(3,974)**	24,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

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 215. The registered number of the Company is 1721262. The nature of the Group's operations and its principal activities are set out on pages 20 to 29. These financial statements are presented in sterling, which is the currency of the primary economic environment in which the Group operates.

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have also been prepared in accordance with UK-adopted international accounting standards.

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.

Financial Period

The Group's annual report and accounts are made up to an appropriate weekend date around 31 March each year. For 2022, trading is shown for the 52-week period ended on 26 March 2022 (2021: 52-week period ended 27 March 2021).

The financial statements of the Group's joint venture, JSSL, are made up to the year ended 31 March 2022 (2021: year ended 31 March 2021).

Adoption of new and revised standards

The following new and amended standard, adopted in the current financial year, had no significant impact on the financial statements.

- COVID-19-related rent concessions beyond 30 June 2021 (amendment to IFRS 16).

Accounting standards not yet adopted by the Group

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 2023.

- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current'
- Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a contract
- Amendments to IFRS 3 'Reference to the Conceptual Framework'
- Amendments to IAS 16 'Property, Plant and Equipment – Proceeds before Intended Use'
- Annual improvements to IFRS standard 2018-2020
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to introduce a new definition for accounting estimates
- Amendments to IAS 1 'Presentation of Financial statements' and IFRS Practice Statements 1 'Making Materiality Judgements'
- Amendments to IAS 12 'Income Taxes' – 'Deferred Tax Related to Assets' and 'Liabilities Arising from a Single Transaction'.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

1. Significant accounting policies continued

The following factors were considered as relevant:

- The current market conditions and the impact of these (including the potential future impact of the current inflationary market conditions and similar other significant downside risks linked to our principal risks) on the Group's profits and cash flows,
- The UK and Europe order book and the pipeline of potential future orders,
- The Group's business improvement programme, which has delivered tangible benefits in 2022 and is expected to continue doing so in the 2023 financial year and for the period under forecast, and
- The Group's cash position and its bank finance facilities (see note 22), which are committed until December 2026, including both the level of those facilities and the three financial covenants attached to them (interest cover (>4x), net debt to EBITDA (<3.0x) and cash flow cover (<1x)).

In the previous year, the Group continued to trade safely and profitably with positive operating cash flows whilst operating under various COVID-19 restrictions. The directors expect the Group to remain similarly resilient over the forecast period. The directors have reviewed the Group's forecasts and projections for the 2023 financial year and for a period of at least 12 months from the date of approval of the financial statements, including sensitivity analysis to assess the Group's resilience to potential adverse outcomes, including a highly pessimistic 'severe but plausible' scenario. This scenario is based on the combined impact of securing no further orders and further significant inflationary pressures for the entirety of the going concern period. Given the strong previous performance of the Group, this scenario is only being modelled to stress test our strong financial position and demonstrates the existence of considerable headroom in the Group's covenants and borrowing facilities in this 'severe but plausible' scenario.

Having also made appropriate enquiries, the directors consider it reasonable to assume that the Group has adequate resources to be able to operate within the terms and conditions of its financing facilities for at least 12 months from the approval of the Group financial statements. For this reason, the directors continue to adopt the going concern basis in preparing the Group financial statements.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to the reporting date each year. Control is achieved where the Company has the power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Where relevant, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-underlying items
Non-underlying items have been separately identified 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.

1. Significant accounting policies continued

A joint venture is an entity over which the Group is in a position to exercise joint control. The Group has adopted the equity method of accounting (as discussed below) for joint ventures and associated companies (together 'JVs and associates'), in accordance with IFRS 11.

The results and assets and liabilities of JVs and associates are incorporated in these financial statements using the equity method of accounting unless it meets the exceptions described in IAS 28. Investments in JVs and associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of their net assets, less any impairment in the value of individual investments. Losses in excess of the Group's interest in those JVs and associates are not recognised unless, and only to the extent that, the Group has incurred legal or constructive obligations on their behalf.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the JVs and associates at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

The consolidated income statement includes the Group's share of the JVs and associates' profit less losses, whilst 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

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. 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 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.

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. Included in capitalised contract costs are pre-contract tender costs. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities
Contract liabilities primarily relate to the advance payments from customers for construction contracts, for which revenue is recognised over time.

Retirement benefit obligations
The Group operates two defined contribution pension schemes and costs of these schemes are charged to the income statement in the period in which they are incurred.

The Group has a defined benefit pension scheme which is now closed to new members. The liability recognised in the balance sheet comprises the present value of the defined benefit pension obligation, determined by discounting the estimated future cash flows using the market yield on a high quality corporate bond, less the fair value of the scheme assets.

The cost of providing benefits recognised within operating costs in the income statement and the defined benefit obligations is determined at the reporting date by independent actuaries, using the projected unit credit method.

Actuarial gains and losses are recognised in the period in which they occur in the statement of comprehensive income.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. These are determined based on future changes in tax rates that have been enacted rather than simply future changes that have been proposed but not enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

1. Significant accounting policies continued

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, and plant and machinery are stated at cost in the balance sheet. Depreciation on buildings is included within operating costs.

Depreciation is provided on other property, plant and equipment to write off the cost of each asset over its estimated useful life at the following rates:

Freehold buildings	1 per cent straight-line
Long leasehold buildings	Shorter of 1 per cent straight-line or lease term
Plant and machinery	10 per cent straight-line
Fixtures, fittings and office equipment	10 per cent written down value
Computer equipment	20 per cent straight-line
Motor vehicles	25 per cent written down value
Site safety equipment	20 per cent straight-line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is included within operating costs.

Right-of-use assets and lease liabilities
The Group adopted IFRS 16 'Leases' on 1 April 2019 using the modified retrospective approach. The standard has resulted in many operating leases being recognised as right-of-use assets and lease liabilities on the consolidated balance sheet, as the classification as either operating leases or finance leases has been eliminated.

Under IFRS 16 'Leases', at the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether it has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset throughout the period of use.

Leases in which the Group is a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured as equal to the lease liability and adjusted for the amount of any prepaid or accrued lease payments relating to that lease before the commencement date, any lease incentives received, initial direct costs associated with the lease and an initial estimate of restoration costs. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Group is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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.

1. Significant accounting policies continued

Intangibles

The Group recognises intangible assets at cost less accumulated amortisation and impairment losses. Intangible assets acquired through acquisitions arise as a result of applying IFRS 3, which requires the separate recognition of intangible assets from goodwill.

Other acquired intangible assets include software costs.

Intangible assets are amortised on a straight-line basis over their useful economic lives as follows:

	Amortisation period
Customer relationships	4–5 years
Brands	5 years
Order book	18 months

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, 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 (raw materials and consumables and work in progress) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

1. Significant accounting policies continued

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest over the relevant period.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

The Group issues equity-settled share-based payments. These share-based payments are measured at fair value at the date of grant based on the Group's estimate of shares that will eventually vest. The fair value determined is then expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding increase in equity. Further details regarding the determination of the fair value of equity settled share-based transactions are set out in note 23.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and, as appropriate, are discounted to present value where the effect is material.

Derivative financial instruments and hedge accounting

The Group enters into certain foreign exchange forward contracts to manage its exposure to currency movements. Further details of derivative financial instruments are disclosed in note 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss, except where hedge accounting is used, provided the conditions specified by IFRS 9 are met. Hedge accounting is applied in respect of hedge relationships where it is both permissible under IFRS 9 and practical to do so. When hedge accounting is used, the relevant hedging relationships are classified as cash flow hedges.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in other comprehensive income rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in other comprehensive income will be recycled to the income statement (operating costs).

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in other comprehensive income until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to net profit or loss for the period.

2. Critical accounting judgements and estimates

The preparation of financial statements under IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Assumptions and estimates are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

The following items are those that management considers to be critical due to the level of judgement and estimation required:

Revenue and profit recognition
Recognition of revenue and profit is based on judgements made in respect of the ultimate profitability of a contract. Such judgements are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against the construction programme, changes in design and work scope, the contractual terms and site conditions under which the work is being performed, delays, costs incurred, claims received by the Group, external certification of the work performed and the recoverability of any unagreed income from claims and variations.

Management continually reviews the estimated final outturn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment. However, due to the level of uncertainty, combination of cost and income variables and timing across a large portfolio of contracts at different stages of their contract life, it is impracticable to provide a quantitative analysis of the aggregated judgements that are applied at a portfolio level.

Within this portfolio, there are a limited number of long-term contracts where the Group has incorporated significant judgements over revenue and profit, which have been recognised at a level that is considered highly probable not to significantly reverse. However, there are a host of factors affecting potential outcomes in respect of these entitlements which could result in a range of reasonably possible outcomes on these contracts in the following financial year, ranging from a gain of £17,000,000 to a loss of £6,000,000. Management has assessed the range of reasonably possible outcomes on these limited number of contracts based on facts and circumstances that were present and known at the balance sheet date. As with any contract applying long-term contract accounting, these contracts are also affected by a variety of uncertainties that depend on future events, and so often need to be revised as contracts progress.

At the balance sheet date, amounts due from construction contract customers, included in contract assets, trade and other receivables, was £74,898,000 (2021: £16,288,000), see note 3.

Contingent liabilities
On an ongoing basis the Group is a party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised only where, based on the Group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of contingent liabilities is made in note 28 unless the possibility of a loss arising is considered remote. These potential liabilities are subject to uncertain future events, may extend over several years and their timing may differ from current assumptions. Management applies its judgement in determining whether or not a liability on the balance sheet should be recognised or a contingent liability should be disclosed.

Retirement benefit obligations
The Group's defined benefit pension scheme has been valued in accordance with IAS 19 'Employee Benefits'. The benefit obligation is calculated using a number of assumptions including forecast discount and mortality rates (as disclosed in note 30). The present value of the benefit obligations is calculated by discounting the benefit obligation using market rates on relevant AA corporate bonds at the balance sheet date.

Significant judgement is required in setting the criteria for the valuation of the liability. Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the difference between expected and actual returns on the scheme's assets are classified as actuarial gains and losses.

The defined benefit obligation recognised at the balance sheet date was £14,396,000 (2021: £22,379,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

3. Revenue and segmental analysis

Revenue

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

	2022 £000	2021 £000
Revenue from construction contracts	403,563	363,254
Other operating income (note 4)	4,584	2,658
Interest received (note 7)	76	33
Total income	408,223	365,945

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.

	2022 £000	2021 £000
Revenue by destination:		
United Kingdom	337,520	214,057
Republic of Ireland and mainland Europe	66,043	149,197
	403,563	363,254

Contract balances

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

	2022 £000	2021 £000
Receivables which are included in 'contract assets, trade and other receivables' (note 18)	106,783	56,541
Contract assets (note 18)	74,898	16,288
Contract liabilities (note 17)	(17,930)	–

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.

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

3. Revenue and segmental analysis continued

The table below represents the aggregate amount of the transaction price allocated to be the performance obligations that are unsatisfied (or partially satisfied) as at 26 March 2022 and have an original expected contract duration of more than one year:

	2023 £000	2024 £000
Construction contracts	**86,293**	18,100

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 £57,619,000 (2021: £108,871,000) relating to one major customer (spread over several contracts), who individually contributed more than 10 per cent of Group revenue in the year ended 26 March 2022.

4. Operating costs

	2022 £000	2021 £000
Raw materials and consumables (including subcontractor costs)	**253,734**	215,634
Staff costs (note 6)	**86,034**	75,630
Other operating charges	**33,802**	42,836
Amortisation of other intangible assets (note 12)	**178**	4
Operating lease expense:		
– plant and machinery	**535**	128
– other	**118**	207
Depreciation (notes 13 and 14):		
– owned property, plant and equipment	**5,163**	4,434
– right-of-use assets	**1,702**	1,569
Other operating income	**(4,584)**	(2,658)
Operating costs before non-underlying items	**376,682**	337,784
Non-underlying items (note 5)	**5,424**	2,795
	382,106	340,579
Other operating charges include:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**25**	25
Fees payable to the Company's auditor for other services:		
– the audit of the Company's subsidiaries pursuant to legislation	**450**	315
– audit-related assurance services	**25**	25
– other assurance services	**–**	40

Other operating income mainly represents research and development tax credits.

Fees payable to KPMG LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

In addition to the non-audit fees above, the Group incurred non-audit fees of £nil (2021: £39,000) 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 122 and 125. No services were performed pursuant to contingent fee arrangements.

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5. Non-underlying items

	2022 £000	2021 £000
Operating costs	5,424	2,795
Finance expense	674	429
Non-underlying items before tax	**6,098**	3,224
Tax on non-underlying items	604	(771)
Non-underlying items after tax	**6,702**	2,453

Non-underlying items before tax consist of:	2022 £000	2021 £000
Amortisation of acquired intangible assets – Harry Peers/DAM Structures	5,191	2,842
Acquisition-related expenses – DAM Structures	–	689
Contingent consideration movements – Harry Peers	–	(736)
Other exceptional costs	233	–
Unwinding of discount on contingent consideration – DAM Structures/Harry Peers	674	429
Non-underlying items before tax	**6,098**	3,224

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 and DAM Structures.

Acquisition-related expenses in the prior year of £689,000, represent non-recurring legal and consultancy fees associated with the DAM structures acquisition.

The basis for stating results on an underlying basis is set out on page 6. 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, see note 32.

6. Staff costs

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on page 143.

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

	2022 Number	2021 Number
Production and site	1,322	1,208
Sales and administration	256	193
	1,578	1,401

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	73,885	65,517
Social security costs	7,842	6,910
Other pension costs	4,307	3,203
	86,034	75,630

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

7. Net finance expense

	2022 £000	2021 £000
Finance income	(76)	(33)
Finance expense	1,879	1,257
	1,803	1,224

8. Taxation

a) The taxation charge comprises:

	2022 £000	2021 £000
Current tax		
UK corporation tax charge	(4,178)	(3,940)
Foreign tax relief/other relief	124	–
Foreign tax suffered	(125)	–
Adjustments to prior years' provisions	(251)	(69)
	(4,430)	(4,009)
Deferred tax (note 20)		
Current year credit	415	25
Impact of change in future years' tax rates	(1,457)	–
Adjustments to prior years' provisions	73	181
	(969)	206
	(5,399)	(3,803)

b) Tax reconciliation

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

	2022 £000	2021 £000
Profit before tax	21,000	21,107
Tax on profit at standard UK corporation tax rate	(3,990)	(4,010)
Expenses not deductible for tax purposes	(536)	103
Income not taxable	506	–
Tax effect of share of results of JVs and associates	256	(8)
Adjustments to prior years' provisions	(178)	112
Rate differences	(1,457)	–
	(5,399)	(3,803)

Corporation tax was calculated at 19 per cent (2021: 19 per cent) of the estimated taxable result for the year.

On 4 March 2021, the UK government announced an intention to increase the rate of corporation tax to 25 percent with effect from 1 April 2023. During the year, this change has been confirmed and hence all deferred tax balances have been calculated at 25 per cent.

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9. Dividends

	2022 £000	2021 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 27 March 2021 of 1.8p per share (2020: 1.8p)	**5,529**	5,523
Interim dividend for the year ended 26 March 2022 of 1.2p per share (2021: 1.1p)	**3,700**	3,372
	9,229	8,895

The directors are recommending a final dividend of 1.9p per share (2021: 1.8p). This, together with the interim dividend of 1.2p per share (2021:1.1p) will result in a total dividend of 3.1p per share (2021: 2.9p).

10. Earnings per share

Earnings per share is calculated as follows:

	2022 £000	2021 £000
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent Company	**15,601**	17,304
Earnings for the purposes of underlying basic earnings per share being underlying net profit attributable to equity holders of the parent Company	**22,303**	19,757

	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**308,834,123**	307,337,645
Effect of dilutive potential ordinary shares	**1,335,323**	112
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**310,169,446**	307,337,757

Basic earnings per share	**5.05p**	5.63p
Underlying basic earnings per share	**7.22p**	6.43p
Diluted earnings per share	**5.03p**	5.63p
Underlying diluted earnings per share	**7.19p**	6.43p

Reconciliation of earnings	2022 £000	2021 £000
Net profit attributable to equity holders of the parent Company	**15,601**	17,304
Non-underlying items	**6,702**	2,453
Underlying net profit attributable to equity holders of the parent Company	**22,303**	19,757

Further details of non-underlying items are provided in note 5.

11. Goodwill

The goodwill balance was created on the following acquisitions:

	£000
On the DAM Structures acquisition in 2021	11,474
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
	82,188

Following the finalisation of the acquisition accounting for DAM Structures in 2022, an amount of £3,594,000 was reclassified from goodwill to intangible assets during the year. This reflects additional identified intangible assets on acquisition of £5,958,000, offset by fair value adjustments of £1,514,000 and related deferred tax liabilities of £850,000. The fair value adjustments relate to adjustments to contract balances, updated using the best estimates available, which are based on conditions existing at the date of acquisition (see note 21).

Due to the proximity of the acquisition to the previous year-end date, the valuation of these assets was not finalised until the year ended 26 March 2022.

11. Goodwill continued

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. There are four CGUs identified as part of the impairment, these mainly reflect the acquisitions made by the Group.

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, together with cash flows based on projections for the following two years. After this period, cash flows have been extrapolated using a growth rate of 1.5 per cent (2021: 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 10.6 per cent (2021: 10 per cent).

Following the impairment reviews performed by the Group, no impairment charge was recorded in the year ended 26 March 2022.

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 26 March 2022.

12. Other intangible assets

	Intangible assets acquired on acquisition £000	Other intangible assets £000	Total £000
Cost			
At 29 March 2020	8,796	1,033	9,829
Additions	4,750	351	5,101
At 28 March 2021	**13,546**	**1,384**	**14,930**
Additions	5,958	124	6,082
At 26 March 2022	**19,504**	**1,508**	**21,012**
Amortisation			
At 29 March 2020	1,421	1,033	2,454
Charge for the year	2,842	4	2,846
At 28 March 2021	**4,263**	**1,037**	**5,300**
Charge for the year	5,191	178	5,369
At 26 March 2022	**9,454**	**1,215**	**10,669**
Carrying amount			
At 26 March 2022	**10,050**	**293**	**10,343**
At 27 March 2021	9,283	347	9,630

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12. Other intangible assets continued

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 29 March 2020	6,070	813	1,913	8,796
Additions	3,000	–	1,750	4,750
At 28 March 2021	**9,070**	**813**	**3,663**	**13,546**
Additions	5,853	–	105	5,958
At 26 March 2022	**14,923**	**813**	**3,768**	**19,504**
Amortisation				
At 29 March 2020	709	74	638	1,421
Charge for the year	1,419	148	1,275	2,842
At 28 March 2021	**2,128**	**222**	**1,913**	**4,263**
Charge for the year	3,188	148	1,855	5,191
At 26 March 2022	**5,316**	**370**	**3,768**	**9,454**
Carrying amount				
At 26 March 2022	**9,607**	**443**	**–**	**10,050**
At 27 March 2021	6,942	591	1,750	9,283

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).

Following the finalisation of the acquisition accounting and intangible asset valuations for DAM Structures in 2022, an amount of £5,958,000 has been reclassified from goodwill to acquired intangible assets.

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 29 March 2020	70,447	44,806	10,608	400	126,261
Additions	247	5,075	823	130	6,275
Acquisition of subsidiary	–	1,103	37	–	1,140
Disposals	(30)	(360)	(53)	(140)	(583)
At 28 March 2021	**70,664**	**50,624**	**11,415**	**390**	**133,093**
Additions	2,759	1,911	479	117	5,266
Disposals	–	(1,470)	(1)	(128)	(1,599)
At 26 March 2022	**73,423**	**51,065**	**11,893**	**379**	**136,760**
Accumulated depreciation					
At 29 March 2020	6,658	27,826	2,796	117	37,397
Charge for the year	676	2,622	1,034	102	4,434
Disposals	–	(303)	(21)	(112)	(436)
At 28 March 2021	**7,334**	**30,145**	**3,809**	**107**	**41,395**
Charge for the year	678	3,250	1,118	117	5,163
Disposals	–	(1,127)	(1)	(106)	(1,234)
At 26 March 2022	**8,012**	**32,268**	**4,926**	**118**	**45,324**
Carrying amount					
At 26 March 2022	**65,411**	**18,797**	**6,967**	**261**	**91,436**
At 27 March 2021	63,330	20,479	7,606	283	91,698

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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 29 March 2020	9,420	300	2,005	11,725
Additions	792	48	458	1,298
Disposals	–	(47)	(159)	(206)
At 28 March 2021	**10,212**	**301**	**2,304**	**12,817**
Additions	–	2,735	431	3,166
Disposals	–	(3)	(658)	(661)
At 26 March 2022	**10,212**	**3,033**	**2,077**	**15,322**
Accumulated depreciation				
At 29 March 2020	830	137	618	1,585
Charge for the year	831	85	653	1,569
Disposals	–	–	(145)	(145)
At 28 March 2021	**1,661**	**222**	**1,126**	**3,009**
Charge for the year	970	150	582	1,702
Disposals	–	–	(459)	(459)
At 26 March 2022	**2,631**	**372**	**1,249**	**4,252**
Carrying amount				
At 26 March 2022	**7,581**	**2,661**	**828**	**11,070**
At 27 March 2021	8,551	79	1,178	9,808

15. Interests in JVs and associates

The Group has an interest in an associated company and two joint ventures as follows:

	Holding %	Class of capital
Associated companies:		
Fabsec Limited — development of fire beam	25.0	Ordinary
Joint ventures:		
JSW Severfield Structures Limited — structural steelwork serving the Indian market	50.0	Ordinary
Construction Metal Forming Limited — Manufacturer of cold rolled metal products	50.0	Ordinary

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

Construction Metal Forming ('CMF') Limited is registered in Chepstow in the United Kingdom. During the prior year, the Group invested a £2,444,000 in the joint venture to support the expansion of the production facilities (which was matched by our joint venture partner, Studwelders Composite Floor Decks Ltd).

The Group did not make any further investments in either CMF Limited, JSW Severfield Structures Limited, or Fabsec Limited during the year (2021: £nil).

15. Interests in JVs and associates continued

	Goodwill £000	Share of net assets/ (liabilities) £000	Total £000
At 29 March 2020	5,326	21,364	26,690
Unrecovered loss(net)	–	(344)	(344)
Investments made during the year	–	2,444	2,444
At 28 March 2021	**5,326**	**23,464**	**28,790**
Profit retained	–	1,346	1,346
At 26 March 2022	**5,326**	**24,810**	**30,136**

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
2022	**–**	**796**	**550**	**1,346**
2021	–	(697)	353	(344)

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	**2022 £000**	2021 £000
Current assets	1,308	89,768	12,240	**103,316**	70,368
Non-current assets	1	28,673	4,315	**32,989**	40,645
Current liabilities	(54)	(85,086)	(7,881)	**(93,021)**	(62,967)
Non-current liabilities	(2,239)	(2,212)	(777)	**(5,228)**	(12,104)
Net assets	(984)	31,143	7,897	**38,056**	35,942
Group's share of net (liabilities)/assets	(246)	15,572	3,948	**19,274**	18,264
Goodwill	–	–	5,326	**5,326**	5,326
Investment	–	–	2,444	**2,444**	2,444
Impact of foreign exchange on share of net assets	–	2,454	–	**2,454**	2,068
Accounting policy alignment	246	374	18	**638**	688
Carrying amount of interest in JVs and associates	–	18,400	11,736	**30,136**	28,790
Revenue	198	100,340	35,345	**135,883**	73,113
Depreciation and amortisation	(1)	(1,597)	(79)	**(1,677)**	(1,839)
Net finance expense	–	(3,282)	(67)	**(3,349)**	(3,485)
Taxation	–	(302)	(259)	**(561)**	314
Profit after tax	76	1,592	1,102	**2,770**	(688)
Group's share of profit after tax	–	796	550	**1,346**	(344)

There were no contingent liabilities or capital commitments (2021: none) associated with the Group's JVs and associates.

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16. Inventories

	2022 £000	2021 £000
Raw materials and consumables	12,112	5,980
Work-in-progress	5,893	4,251
	18,005	10,231

17. Construction contracts

	2022 £000	2021 £000
Contracts-in-progress at balance sheet date:		
Amounts due from construction contract customers included in contract assets, trade and other receivables	106,783	56,541
Amounts due to construction contract customers included in trade and other payables	(17,930)	–
	88,853	56,541
Contract costs incurred plus recognised profits less recognised losses to date	584,344	496,720
Less: progress billings received	(495,491)	(440,179)
	88,853	56,541

18. Contract assets, trade and other receivables

Current assets	2022 £000	2021 £000
Amounts due from construction contract customers (note 17):		
Trade receivables and other	27,004	35,885
Contract assets	74,898	16,288
Total	101,902	52,173
Other receivables	6,062	6,212
Prepayments and accrued income	7,580	7,331
Amounts due from JVs and associates	2,315	2,131
	117,859	67,847

Non-current assets	2022 £000	2021 £000
Contract assets, trade and other receivables	4,881	4,368
	4,881	4,368

Contract assets of £74,898,000 (2021: £16,288,000) mainly reflect the Group's right to consideration for work completed but not billed at the year end on construction contracts. The increase in the year mainly reflects the impact of steel and other input price rises, together with higher steel purchases to meet production requirements in 2023.

The average credit period taken on revenue, calculated on a count-back basis to make appropriate allowance for monthly revenue phasing, is 69 days (2021: 31 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 26 March 2022 were £nil (2021: £nil).

19. Contract liabilities, trade and other payables

	2022 £000	2021 £000
Trade creditors	**47,326**	44,092
Other taxation and social security	**3,460**	2,839
Other creditors and accruals	**41,776**	29,628
Contract liabilities (note 17)	**17,930**	–
Amounts owed to JVs and associates	**1,200**	1,244
	111,692	77,803

In the current year, other creditors and accruals includes the outstanding contingent purchase consideration for DAM Structures of £8,500,000, which is payable in the next 12 months.

Contract liabilities of £17,930,000 reflect advance payments from customers for construction contracts for which revenue has not been recognised against as at 26 March 2022. At 27 March 2021, there were no advance payments.

In the prior year, other creditors and accruals included outstanding purchase consideration for CMF Limited of £500,000. This was paid in full in the current year.

Non-current liabilities	2022 £000	2021 £000
Other creditors and accruals	**3,081**	10,639
	3,081	10,639

Non-current other creditors and accruals in the current and prior year reflects the outstanding contingent purchase consideration for DAM Structures of £3,081,000 (2021: £10,639,000) which is payable in the next five years, 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 52 days (2021: 45 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:

	2022 £000	2021 £000
Deferred tax liabilities	**(11,883)**	(8,895)
Deferred tax assets	**4,717**	4,734
	(7,166)	(4,161)

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20. Deferred tax assets and liabilities continued

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 £000	Trading losses £000	Other £000	Total £000
At 29 March 2020	(6,765)	(1,401)	3,551	213	393	(4,009)
(Charge)/credit to income statement	(177)	540	(231)	7	67	206
On acquisition of subsidiary	(189)	(903)	–	–	–	(1,092)
Charge to other comprehensive income	–	–	932	–	(198)	734
At 28 March 2021	**(7,131)**	**(1,764)**	**4,252**	**220**	**262**	**(4,161)**
Prior year adjustment	(79)	–	–	–	152	73
(Charge)/credit to income statement	(155)	986	(389)	226	(253)	415
(Charge)/credit to income statement due to rate change	(2,317)	(291)	941	–	210	(1,457)
On acquisition of subsidiary*	–	(1,132)	–	–	280	(852)
Charge to other comprehensive income	–	–	(1,128)	–	17	(1,111)
Charge to other comprehensive income due to rate change	–	–	(77)	–	4	(73)
At 26 March 2022	**(9,682)**	**(2,201)**	**3,599**	**446**	**672**	**(7,166)**

* Relates to the finalisation of the acquisition accounting for DAM Structures in the year.

21. Business combinations

Summary of prior year acquisition

On 26 February 2021, the Company acquired 100 per cent of the share capital of DAM Structures Limited ('DAM Structures'), an innovative steel fabrication company. The board believe that the acquisition will give the Group immediate access to attractive, complimentary market sectors with strong growth potential including the propping, railway and steel piling market sectors.

The final net consideration of £22.9m comprised:

	Provisional £000	Movement £000	**Final £000**
Gross initial cash consideration	16,994	–	16,994
Completion payment	934	(408)	526
Contingent consideration	3,709	268	3,977
Deferred consideration	6,930	–	6,930
Gross consideration	**28,567**	(140)	**28,427**
Net cash acquired (excluding payments in advance)	(5,521)	–	(5,521)
Net consideration	**23,046**	(140)	**22,906**

DAM Structures was acquired for an initial gross consideration of £16,994,000, including cash and cash equivalents of £5,521,000, which was funded by a combination of Group cash reserves and a new term loan.

In addition, a maximum deferred consideration of £7,000,000 is payable in cash in H1 2023. An additional performance-based contingent consideration is also in place which could further increase the purchase price by up to £8,000,000, if certain work-winning targets in the railway and steel piling sectors are achieved over a five-year period, ending in April 2026.

Following the finalisation of the acquisition accounting for DAM Structures in 2022, the completion payment was agreed at £526,000, which has been paid in cash during the year, and the fair value of the contingent consideration has increased from the provisional stage to £3,977,000. This represents management's current assessment of the amount likely to be paid of £6,565,000 (out of the maximum £8,000,000), discounted at DAM Structures's cost of capital of 18.5 per cent.

21. Business combinations continued

The fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional £000	Movement £000	Final £000
Non-current assets			
Property, plant and equipment	**1,990**	–	**1,990**
Current assets			
Inventories	**2,235**	–	**2,235**
Contract assets, trade and other receivables	**10,141**	(1,121)	**9,020**
Cash and cash equivalents (excluding payments in advance)	**5,521**	–	**5,521**
	17,897	(1,121)	**16,776**
Total assets	**19,887**	(1,121)	**18,766**
Current liabilities			
Trade and other payables	**(9,973)**	(493)	**(10,466)**
Current tax liabilities	**(86)**	(40)	**(126)**
	(10,059)	(533)	**(10,592)**
Non-current liabilities			
Deferred tax liabilities	**(1,079)**	(850)	**(1,929)**
Total liabilities	**(11,138)**	(1,383)	**(12,521)**
Net assets	**8,749**	(2,504)	**6,245**
Net cash acquired (excluding payments in advance)	**(5,521)**	–	**(5,521)**
Net identifiable assets acquired	**3,228**	(2,504)	**724**
Identified intangible assets	**4,750**	5,958	**10,708**
Goodwill	**15,068**	(3,594)	**11,474**
Net assets acquired	**23,046**	(140)	**22,906**

The finalisation of the acquisition accounting for DAM Structures resulted in an amount of £3,594,000 being reclassified from goodwill to intangible assets during the year. This reflects additional identified intangible assets on acquisition of £5,958,000, offset by fair value adjustments of £1,514,000 and related deferred tax liabilities of £850,000. The fair value adjustments relate to adjustments to contract balances, updated using the best estimates available, which are based on conditions existing at the date of acquisition. Due to the proximity of the acquisition to the previous year-end date, the valuation of these assets was not finalised until the year ended 26 March 2022.

Goodwill of £11,474,000 represents both existing and new end user customers (including core fabrication and rail), which were not recognised separately in accordance with IFRS 3 (Revised) 'Business Combinations', the ability and skill of DAM's employees and management, know-how, and the quality of the services provided (none of which qualify for recognition as a separate intangible asset under IFRS 3). The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Analysis of amounts disclosed in the cash flow statement in connection with the acquisition:

	2022 £000	2021 £000
Gross initial cash consideration	**–**	16,994
Completion payment	**526**	–
Net cash acquired (including payments in advance)	**–**	(5,505)
Total cash outflow – investing activities	**526**	11,489
Contingent consideration – Harry Peers	**–**	6,000
Net initial cash consideration	**526**	17,489

Acquisition-related costs of £689,000 were fully expensed in the period to 27 March 2021 as non-underlying operating costs (see note 5).

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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

	2022 £000	2021 £000
Borrowing	(14,850)	(20,750)
Cash and cash equivalents	(3,974)	24,983
Unamortised debt arrangement fees	402	128
Net (debt)/funds	(18,422)	4,361
Equity	203,960	190,929
Net debt to equity ratio	9.0%	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 (debt)/funds as set out in the Group's borrowing facilities.

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 (debt)/funds.

	2022 £000	2021 £000
Underlying operating profit		
Underlying operating profit (before JVs and associates)	26,881	25,470
Share of results of JVs and associates	1,346	(344)
	28,227	25,126
Capital employed:		
Shareholders' equity	203,960	190,929
Cash and cash equivalents	3,974	(24,983)
Borrowings	14,850	20,750
Net funds (for ROCE purposes)	18,824	(4,233)
Acquired intangible assets	(10,050)	(9,283)
Retirement benefit obligations (net of deferred tax) (note 30)	10,797	18,127
	223,531	195,540
Average capital employed	209,536	185,382
Return on capital employed	13.5%	13.6%

22. Financial instruments continued

Categories of financial instruments

	Carrying value	
	2022 £000	2021 £000
Financial assets		
Cash and cash equivalents	**–**	24,983
Trade receivables and other (note 18)	**31,885**	40,253
Derivative financial instruments	**670**	1,049
Financial liabilities		
Cash and cash equivalents	**(3,974)**	–
Trade creditors (note 19)	**(47,326)**	(44,092)
Other creditors and accruals (note 19)	**(44,857)**	(40,267)
Lease liabilities	**(11,640)**	(11,109)

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.

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 26 March 2022 were £11,236,000 (2021: £11,502,000).

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.

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22. Financial instruments continued

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 December 2021, the Group completed a refinancing of its revolving credit facility ('RCF') with HSBC Bank PLC and Virgin Money (formerly Yorkshire Bank). The new £50,000,000 RCF provides additional liquidity above the £25,000,000 RCF which it replaced and extends the term of the facility which now expires in December 2026. The new facility provides the Group with enhanced liquidity and long-term financing to help support its growth strategy. The RCF remains subject to three financial covenants, namely interest cover, net debt to EBITDA and debt service (cash flow) cover. The Group operated well within these covenant limits throughout the year ended 26 March 2022.

As at 26 March 2022, £50,000,000 (2021: £25,000,000) of this facility was not drawn but available. Up to £15,000,000 of this facility is available by way of an overdraft (2021: £10,000,000).

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 – 2022							
Trade and other payables	**92,183**	**78,873**	**10,229**	**410**	**2,671**	**–**	**92,183**
Financial liabilities — leases	**11,640**	**459**	**1,297**	**1,533**	**3,208**	**5,143**	**11,640**
Borrowings	**14,850**	**1,475**	**4,425**	**4,150**	**4,800**	**–**	**14,850**
	118,673	**80,807**	**15,951**	**6,093**	**10,679**	**5,143**	**118,673**
Liabilities – 2021							
Trade and other payables	84,358	65,688	7,852	6,468	4,350	–	84,358
Financial liabilities — leases	11,109	675	1,068	1,288	2,423	5,655	11,109
Borrowings	20,750	1,475	4,425	5,900	8,950	–	20,750
	116,217	67,838	13,345	13,656	15,723	5,655	116,217

22. Financial instruments continued

Market risk

The Group's activities expose it primarily to the financial risks of changes in credit risks described above, in foreign currency exchange rates and interest rates. The Group has entered into certain derivative financial instruments to manage its exposure to foreign currency risk.

Market risk exposures are monitored and are supplemented by sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The Group seeks to minimise the effects of currency risks by using derivative financial instruments when appropriate to hedge these risk exposures against contracted sales. The use of financial derivatives is governed by the Group's policies approved by the board of directors. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes.

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

	Liabilities		Assets	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Euro	**(2,033)**	(8,329)	**12,235**	28,589
US dollar	**(2)**	(32)	**4**	5
	(2,035)	(8,361)	**12,239**	28,594

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	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Profit or loss and equity	**–**	3	**(1,234)**	(252)

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 26 March 2022, derivatives designated as cash flow hedges were an asset of £670,000 (2021: £1,049,000) and recognised total losses of £9,000 (2021: gains of £1,950,000) in equity and losses of £370,000 (2021: gains of £234,000) in profit and loss in the year.

At 26 March 2022, the Group had forward exchange contracts of 24.0m euros (2021: 20.0m euros) at an average exchange rate of €1.079/£ (2021: €1.127/£) which mature within 12 months of the year end. In addition, the Group had forward exchange contracts of 6.4m CHF (2021: nil) at an average exchange rate of CHF 1.028/£ (2021: N/A) which mature within 12 months of the year end.

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22. Financial instruments continued

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 26 March 2022 and the Group's equity at that date would decrease by £74,000 (2021: £104,000). If the £50,000,000 facility is fully utilised the exposure increases by £250,000. 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 142 to 152. The Group recognised a total charge of £989,000 (2021: £1,167,000) relating to its performance share plan and sharesave scheme.

Performance share plan

The vesting of awards is subject to performance conditions set by the remuneration committee. The Group recognised a total charge of £280,000 for the year (2021: £593,000) with a corresponding entry to reserves. The weighted average fair value of share options granted during the year was £0.71 per share. Three outstanding awards had been granted to 26 March 2022:

During the year ended 28 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 30 March 2019 to 26 March 2022. The following vesting schedule applies:

Underlying EPS performance for year ending 26 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 (2021: £nil).

23. Share-based payments continued

During the period ended 27 March 2021 the remuneration committee granted 2,983,529 ordinary shares of 2.5p each at £nil value. The vesting of these awards will be dependent on the Group's underlying earnings per share performance over the three-year period from 29 March 2020 to 25 March 2023. The following vesting schedule applies:

Underlying EPS performance for year ending 25 March 2023	% of award vesting
Equal to less than 6.57p	0%
Equal to 8.36p or better	100%
Between 6.57p and 8.36p	between 25% and 100%

The assumptions used to measure the fair value of the shares granted are as follows:

Share price on date of grant	£0.69*
Exercise price	nil
Expected volatility (using historic performance)	96%
Risk-free rate	0.2%
Dividend	3.0p
Actual life	three years

* Granted on 17 December 2020.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £81,000 (2021: £593,000).

During the year ended 26 March 2022 the remuneration committee granted 2,709,748 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 28 March 2021 to 30 March 2024. The following vesting schedule applies:

Underlying EPS performance for year ended 30 March 2024	% of award vesting
Equal to less than 7.61p	0%
Equal to 9.92p or better	100%
Between 7.61p and 9.92p	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	£0.81*
Exercise price	nil
Expected volatility (using historic performance)	94%
Risk-free rate	0.3%
Dividend	3.1p
Actual life	three years

* Granted on 17 June 2021.

The Black–Scholes pricing model produced, using the above assumptions, an annual charge of £199,000 (2021: £nil).

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

	2022 Number	2021 Number
Outstanding at the beginning of the year	**7,429,677**	6,292,368
Granted during the year	**2,709,748**	2,983,529
Lapsed during the year	**(2,029,034)**	(149,481)
Vested during the year	**–**	(1,696,739)
Outstanding at the end of the year	**8,110,391**	7,429,677

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23. Share-based payments continued

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 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 became exercisable for a period of six months. A charge of £nil (2021: £185,000) was recognised in the current period in relation to the 2018 Sharesave scheme.

Under the 2020 Sharesave scheme, options were granted by the Company to participating employees to buy shares at a discount of 10 per cent from the then market price. At the end of the 2020 Sharesave scheme in 2023, these options will become exercisable for a period of six months. A charge of £387,000 (2021: £389,000) was recognised in the current period in relation to the 2020 Sharesave scheme.

Under the 2021 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 2021 Sharesave scheme in 2024, these options will become exercisable for a period of six months. A charge of £322,000 (2021: £nil) was recognised in the current period in relation to the 2021 Sharesave scheme.

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

Save As You Earn option plan ('Sharesave')

	2022 Number	2021 Number
Outstanding at the beginning of the year	5,742,520	3,551,400
Granted during the year	2,300,899	4,259,136
Lapsed during the year	(823,723)	(1,471,382)
Vested during the year	(1,301,599)	(596,634)
Outstanding at the end of the year	5,918,097	5,742,520

24. Share capital

	2022 £000	2021 £000
Issued and fully paid:		
309,523,061 ordinary shares of 2.5p each (2021: 308,221,462 ordinary shares of 2.5p each)	7,738	7,706

The issue of shares represents shares stated to satisfy the 2018 and 2020 sharesave schemes.

The ordinary shares carry no right to fixed income. There are no share options outstanding as at 26 March 2022 (2021: nil).

25. Other reserves

	Share-based payment reserve £000	Capital redemption reserve £000	Hedge accounting reserve £000	Currency translation reserve £000	Total £000
At 29 March 2020	2,319	139	(1,038)	(18)	1,402
Share-based payments	78	–	–	–	78
Gains taken to equity on cash flow hedges	–	–	1,699	–	1,699
Reclassification adjustments on cash flow hedges	–	–	251	–	251
Exchange difference on foreign operations	–	–	–	34	34
At 28 March 2021	**2,397**	**139**	**912**	**16**	**3,464**
Share-based payments	989	–	–	–	989
Losses taken to equity on cash flow hedges	–	–	(22)	–	(22)
Reclassification adjustments on cash flow hedges	–	–	13	–	13
Exchange difference on foreign operations	–	–	–	41	41
At 26 March 2022	**3,386**	**139**	**903**	**57**	**4,485**

The movement in the share-based payment reserve represents the share-based payment charge of £989,000 (2021: £1,167,000) offset by amounts recycled to retained earnings of £nil (2021: £531,000) for share awards vested in the year and £nil (2021: £557,000) for tax paid on these awards. There was no reserves movement in the current or prior year for sharesave schemes.

26. Net cash flow from operating activities

	2022 £000	2021 £000
Operating profit from continuing operations	**22,803**	22,331
Adjustments:		
Depreciation of property, plant and equipment (note 13)	**5,163**	4,434
Loss/(gain) on disposal of other property, plant and equipment	**(11)**	40
Release of deferred consideration (note 5)	**–**	(736)
Amortisation of intangible assets (note 12)	**5,369**	2,846
Movements in pension scheme (note 30)	**(2,045)**	(1,215)
Share of results of JVs and associates (note 15)	**(1,346)**	344
Share-based payments	**989**	610
Right-of-use asset depreciation (note 14)	**1,702**	1,569
Operating cash flows before movements in working capital	**32,624**	30,223
(Increase)/decrease in inventories	**(7,774)**	(1,140)
Decrease/(increase) in receivables	**(50,533)**	12,551
(Decrease)/increase in payables	**23,781**	(11,645)
Cash (used in)/generated from operations	**(1,902)**	29,989
Tax paid	**(3,783)**	(4,640)
Net cash flow from operating activities	**(5,685)**	25,349

	2022 £000	2021 £000
Cash generated from operations	**(1,902)**	29,989
Proceeds on disposal of other property, plant and equipment	**376**	104
Purchases of land and buildings	**(2,759)**	(247)
Purchases of other property, plant and equipment	**(2,507)**	(6,097)
	(6,792)	23,749
Underlying operating profit (before JVs and associates)	**26,881**	25,470
Operating cash conversion	**(25%)**	93%

27. Analysis of net (debt)/funds

	2022 £000	2021 £000
Borrowings	**(14,850)**	(20,750)
Cash and cash equivalents	**(3,974)**	24,983
Unamortised debt arrangement fees	**402**	128
	(18,422)	4,361

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. See note 32 for APM definitions.

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 26 March 2022 this amounted to £nil (2021: £nil). The Group has also given performance bonds in the normal course of trade.

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29. Operating lease arrangements

The Group as lessee

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

	2022 £000	2021 £000
Minimum lease rentals due:		
— Within one year	48	21
— After one year and within five years	15	7
	63	28

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 £4,307,000 (2021: £3,203,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. As at 26 March 2022, contributions of £519,000 (2021: £447,000) 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 2020 by Mr Alex Pearse, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	2022 %	2021 %
Key assumptions used:		
Discount rate	2.9	1.9
Inflation (RPI)	3.6	3.4
Future pension increases	3.3	3.2

When considering mortality assumptions, a life expectancy to 86 at age 65 has been used for the year ended 26 March 2022 (2021: 86). For the year ended 27 March 2021, the Group updated the mortality assumption following analysis undertaken by the Scheme actuary for the triennial funding valuation of the scheme as at 5 April 2020 from 100 per cent of the SAPS Series 3 Base Tables with a +2 year age rating to 120 per cent of the SAPS Series 3 Base Tables. This update is based on analysis of the membership by pension amounts carried out for the 5 April 2020 Scheme funding valuation and allowing for occupational factors. In addition, the allowance for future improvement has been updated for the CMI 2018 model to the CMI 2019 model. The Group has updated its long-term rate of mortality improvements assumption from 1.50 per cent for males and 1.25 per cent for females to 1.25 per cent per annum for both males and females as improvement in life expectancies have continued to slow in recent years, even before allowing for the impact of the COVID-19 pandemic. No adjustment has been made for the impact of COVID-19 on mortality assumptions as it is too early to conclude on any evidence to support the impact.

30. Retirement benefit obligations continued

The RPI inflation for the 2022 disclosures in this note has been calculated using a cash flow weighted single-equivalent rate based on the Bank of England's inflation yield curve. This is a change in methodology from the prior year, which is estimated to reduce the balance sheet liability by c.£1,700,000 at 26 March 2022.

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 4.4%
Rate of mortality	Reducing by 10%	Increase by 3.0%
Price inflation	Increase/decrease by 0.25%	Increase/decrease by 3.2%

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

	2022 £000	2021 £000
Interest cost	940	989
Interest income	(538)	(578)
	402	411

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 £18,899,000 (2021: £24,837,000).

The actual return on scheme assets were a gain of £478,000 (2021: £2,800,000).

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

	2022 £000	2021 £000
Present value of defined benefit obligations	(43,562)	(50,316)
Fair value of scheme assets	29,166	27,937
	(14,396)	(22,379)

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

	2022 %	2021 %
Equities	20.3	24.9
Bonds and gilts	22.0	22.8
Cash	15.1	8.7
Property	10.6	7.7
LDI funds	23.8	26.0
Other	8.2	9.9
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

30. Retirement benefit obligations continued

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

	2022 £000	2021 £000
At start of year	(50,316)	(43,843)
Interest cost	(940)	(989)
Actuarial gains/(losses)	5,998	(7,128)
Benefits paid	1,696	1,644
At end of year	(43,562)	(50,316)

Actuarial losses arising from changes in demographic assumptions, changes in financial assumptions and gains or losses arising from experience were gains of £43,000 (2021: losses of £1,230,000), gains of £6,112,000 (2021: losses of £6,317,000) and losses of £157,000 (2021: gains of £419,000) respectively.

The present value of defined benefit obligations at the year end is as follows:

	2022 £000
Liability in respect of deferred members	(26,163)
Liability in respect of pensioner members	(17,399)
	(43,562)

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

	2022 £000	2021 £000
At start of year	27,937	25,155
Interest income	538	578
Actuarial (losses)/gains	(60)	2,222
Employer contributions	2,447	1,626
Benefits paid	(1,696)	(1,644)
At end of year	29,166	27,937

The Group expects to contribute £210,000 (2021: £210,000) per month to its defined benefit pension scheme in the year to 25 March 2023.

History of experience of gains and losses:

	2022	2021	2020	2019	2018
Experience (losses)/gains on scheme assets (£000)	(60)	2,222	(1,093)	651	(488)
Percentage of scheme assets	(0.2%)	8.0%	(4.3%)	2.5%	(2.0%)
Experience losses/(gains) on scheme liabilities (£000)	157	419	(1,007)	16	200
Percentage of the present value of scheme liabilities	0.4%	0.8%	(2.2%)	0.0%	0.5%
Total amount recognised in the consolidated statement of comprehensive income (£000)	5,938	(4,906)	255	(3,702)	3,606
Percentage of the present value of scheme liabilities	13.6%	(9.8%)	0.6%	(8.1%)	8.6%

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 143.

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:

	2022 £000	2021 £000
Short-term employee benefits	**1,852**	1,704
Contributions into pension schemes	**106**	119
	1,958	1,823

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 (2021: £48,000). The amount due to Fabsec at 26 March 2022 was £117,000 (2021: £117,000).

During the year the Group has contracted with and purchased services from Construction Metal Forming Limited ('CMF') amounting to sales of £83,000 (2021: £41,000) and purchases of £10,748,000 (2021: £11,830,000). The amount due from and to CMF at 26 March 2022 was £1,545,000 (2021: £1,362,000) and £106,000 (2021: £740,000) respectively.

During the year the Group contracted with and purchased services from MET Structures Limited, amounting to sales of £9,804,000 (2021: £2,311,000) and purchases of £1,400,000 (2021: £777,000). MET Structures shares common directors with the Group. The amount due from MET Structures at 26 March 2022 was £2,890,000 (2021: £51,000).

During the year the Group incurred additional operating costs in relation to the day-to-day running of its Indian joint venture ('JSSL') of £236,000 (2021: £391,000). Those costs were recharged to JSSL during the year and the amount due from JSSL at 26 March 2022 was £575,000 (2021: £770,000). During the year the Group contracted with and purchased services from JSSL amounting to £26,000 (2021: £73,000). The amount due to JSSL at 26 March 2022 was £nil (2021: £387,000).

During the year the Group contracted with National Steel Stock Limited amounting to sales of £6,187,000 (2021: £nil). National Steel Stock Limited shares common directors with the Group. The amount due from National Steel Stock Limited at 26 March 2022 was £620,000 (2021: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

32. Alternative performance measures

Our alternative performance measures ('APMs') present useful information which supplements the financial statements. These measures are not defined under IFRS and may not be directly comparable with APMs for other companies. The APMs represent important measures for how management monitors the Group and its underlying business performance. In addition, APMs enhance the comparability of information between reporting periods by adjusting for non-underlying items. The APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance.

In order to facilitate understanding of the APMs used by the Group, and their relationship to reported IFRS measures, definitions and numerical reconciliations are set out below.

Alternative performance measure ('APM')	Definition	Rationale
Underlying operating profit (before JVs and associates)	Operating profit before non-underlying items and the results of JVs and associates.	Profit measure reflecting underlying trading performance of wholly owned subsidiaries.
Underlying profit before tax	Profit before tax before non-underlying items.	Profit measure widely used by investors and analysts.
Underlying basic earnings per share ('EPS')	Underlying profit after tax divided by the weighted average number of shares in issue during the year.	Underlying EPS reflects the Group's operational performance per ordinary share outstanding.
Net funds/(debt) (pre-IFRS 16)	Balance drawn down on the Group's revolving credit facility, with unamortised debt arrangement costs added back, less cash and cash equivalents (including bank overdrafts) before IFRS-16 lease liabilities.	Measure of the Group's cash indebtedness before IFRS-16 lease liabilities, which are excluded from the definition of net funds/(debt) in the Group's borrowing facilities. This measure supports the assessment of available liquidity and cash flow generation in the reporting period.
Operating cash conversion	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).	Measure of how successful we are in converting profit to cash through management of working capital and capital expenditure. Widely used by investors and analysts.
Return on capital employed	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)	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.
Economic value generated and distributed	Economic value generated reflects Group revenue. Economic value distributed is operating costs, employee wages and benefits, payments to providers of capital, payments to government by country, and community investments.	A basic indication of how the Group has created wealth for its stakeholders and an important ESG measure.

Reconciliations to IFRS measures

Underlying operating profit (before JVs and associates)	Note	2022 £000	2021 £000
Underlying operating profit (before JVs and associates)		**26,881**	25,470
Non-underlying operating items	5	**(5,424)**	(2,795)
Share of results of JVs and associates	15	**1,346**	(344)
Operating profit		**22,803**	22,331

Underlying profit before tax	Note	2022 £000	2021 £000
Underlying profit before tax		27,098	24,331
Non-underlying items	5	(6,098)	(3,224)
Profit before tax		21,000	21,107

Underlying taxable profit	2022 £000	2021 £000
Underlying profit before tax	27,098	24,331
Share of results of JVs and associates	(1,346)	344
Underlying taxable profit	25,742	24,675
Non-underlying items	(6,098)	(3,224)
Taxable profit	19,654	21,251

Underlying basic earnings per share	Note	2022 £000	2021 £000
Underlying net profit attributable to equity holders of the parent Company	10	22,303	19,757
Non-underlying items after tax	5	(6,702)	(2,453)
Net profit attributable to equity holders of the parent Company		15,601	17,304
Weighted average number of ordinary shares	10	308,834,123	307,337,645
Underlying basic earnings per share		7.22p	6.43p
Basic earnings per share		5.05p	5.63p

Net funds/(debt) (pre-IFRS 16)	Note	2022 £000	2021 £000
Borrowings		(14,850)	(20,750)
Cash and cash equivalents		(3,974)	24,983
Unamortised debt arrangement costs		402	128
Net (debt)/funds (pre-IFRS 16)	27	(18,422)	4,361
IFRS 16 lease liabilities	22	(11,640)	(11,109)
Net debt (post-IFRS 16)		(30,062)	(6,748)

Economic value generated and distributed	Note	2022 £000	2021 £000
Revenue	3	403,563	363,254
Economic value generated		403,563	363,254
Operating costs	4	382,106	340,579
Non-underlying operating items	5	(5,424)	(2,795)
Underlying operating costs		376,682	337,784
Payments to providers of capital	7	1,879	1,257
Non-underlying finance expense	5	(674)	(429)
Underlying payments to providers of capital		1,205	828
Payments to government		4,795	4,574
Economic value distributed		382,682	343,186

FIVE YEAR SUMMARY

YEAR ENDED 26 MARCH 2022

	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Results					
Revenue	**403,563**	363,254	327,364	274,917	274,203
Underlying* operating profit (before JVs and associates)	**26,881**	25,470	26,978	23,256	22,866
Underlying* profit before tax	**27,098**	24,331	28,621	24,711	23,512
Non-underlying items before tax	**(6,098)**	(3,224)	(2,808)	–	(1,333)
Profit attributable to equity holders of Severfield plc	**15,601**	17,304	20,415	20,162	18,146
Assets employed					
Non-current assets	**230,054**	230,076	203,783	163,033	154,510
Net current assets	**17,383**	22,247	21,068	33,135	33,147
Non-current liabilities	**(43,477)**	(61,394)	(41,176)	(21,161)	(18,660)
Net assets	**203,960**	190,929	183,675	175,007	168,997
Key statistics					
Earnings per share:					
Basic – underlying*	**7.22p**	6.43p	7.74p	6.65p	6.38p
Basic	**5.05p**	5.63p	6.68p	6.65p	6.05p
Diluted – underlying*	**7.19p**	6.43p	7.70p	6.58p	6.29p
Diluted	**5.03p**	5.63p	6.64p	6.58p	5.97p
Dividends per share	**3.10p**	2.90p	2.90p	2.80p	2.60p
Dividend cover (times) – underlying* basis	**2.4**	2.2	2.7	2.5	2.6
Share price – high	**84.80p**	79.90p	96.00p	88.20p	88.00p
– low	**62.60p**	51.20p	57.20p	64.60p	59.50p

* The basis of stating results on an underlying basis is set out on page 6.

FINANCIAL CALENDAR

Preliminary announcement of full-year results	15 June 2022
Publication of annual report	July 2022
Annual general meeting	8 September 2022
Announcement of interim results (provisional)	22 November 2022

COMPANY BALANCE SHEET

YEAR ENDED 26 MARCH 2022

	Note	Year ended 26 March 2022 £000	Year ended 27 March 2021 £000
Non-current assets			
Tangible assets	2	**58,747**	56,635
Intangible assets		**174**	71
Right-of-use asset		**31**	23
Investments	3	**152,598**	152,710
Debtors – amounts falling due after one year	4	**68,977**	–
		280,527	209,439
Current assets			
Debtors – amounts falling due within one year	4	**12,333**	90,381
Cash at bank		**–**	668
		12,333	91,049
Current liabilities			
Cash at bank		**(5,389)**	–
Trade and other payables	5	**(129,903)**	(132,602)
Financial liabilities – borrowings		**(5,900)**	(5,900)
Financial liabilities – leases		**(36)**	(20)
		(141,228)	(138,522)
Non-current liabilities			
Trade and other payables	5	**(3,081)**	(10,639)
Financial liabilities – borrowings		**(8,950)**	(14,850)
		(12,031)	(25,489)
Total assets less liabilities		**139,601**	136,477
Capital and reserves			
Share capital		**7,738**	7,706
Share premium		**88,511**	87,658
Other reserves		**3,485**	2,496
Profit and loss account		**39,867**	38,617
Equity and total shareholders' funds		**139,601**	136,477

The Company reported a profit for the financial year ended 26 March 2022 of £10,479,000 (2021: profit of £12,974,000).

The financial statements were approved by the board of directors on 15 June 2022 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 26 MARCH 2022

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 28 March 2021	**7,706**	**87,658**	**2,496**	**38,617**	**136,477**
Total comprehensive income for the year	**–**	**–**	**–**	**10,479**	**10,479**
Ordinary shares issued*	**32**	**853**	**–**	**–**	**885**
Equity settled share-based payments	**–**	**–**	**989**	**–**	**989**
Dividends paid	**–**	**–**	**–**	**(9,229)**	**(9,229)**
At 26 March 2022	**7,738**	**88,511**	**3,485**	**39,867**	**139,601**

* The issue of shares represents shares allotted to satisfy the 2018 and 2020 and Sharesave scheme.

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total equity £000
At 29 March 2020	7,648	87,292	2,418	34,007	131,365
Total comprehensive income for the year	–	–	–	12,974	12,974
Ordinary shares issued*	58	366	–	–	424
Equity settled share-based payments	–	–	78	531	609
Dividends paid	–	–	–	(8,895)	(8,895)
At 27 March 2021	7,706	87,658	2,496	38,617	136,477

* The issue of shares represents shares allotted to satisfy the 2017 Performance Share Plan award which vested in June 2020 and the 2017 Sharesave schemes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

1. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). In preparing these financial statements, the Company applies the recognition measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with the Companies Act 2006, and as set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and related notes, related party transactions and comparative period reconciliations. In addition, disclosures in relation to share capital (note 24), share premium and dividends (note 9) have not been repeated here as there are no differences to those provided in the consolidated financial statements.

Except as noted below, the Company's accounting policies are consistent with those described in the consolidated financial statements of Severfield plc.

Profit of the parent Company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts.

Audit fees

The Company has taken the exemption granted under SI 2008/489 not to disclose non-audit fees paid to its auditor.

Employees

Directors' remuneration and details of their share-based payments are disclosed in the audited part of the directors' remuneration report on page 143 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. Expected credit losses on these balances is not considered material. The carrying value of these loans approximates to their fair value.

Intercompany guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Group companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

2. Tangible fixed assets

	Freehold and long leasehold land and buildings £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost				
At 28 March 2021	63,288	467	33	63,788
Additions	2,637	–	–	2,637
At 26 March 2022	**65,925**	**467**	**33**	**66,425**
Accumulated depreciation				
At 28 March 2021	6,884	239	30	7,153
Charge for the year	501	23	1	525
At 26 March 2022	**7,385**	**262**	**31**	**7,678**
Carrying amount				
At 26 March 2022	**58,540**	**205**	**2**	**58,747**
At 27 March 2021	56,404	228	3	56,635

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 (2021: £600,000), which is set at a rate only to cover certain of the costs of maintaining the properties.

3. Investments

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures and associated undertakings, including their country of incorporation, as at 26 March 2022 is disclosed below. All of these had a reporting period ended 26 March 2022, 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
Severfield (Design & Build) Limited	England and Wales	Ordinary
Severfield (Products & Processing) Limited	England and Wales	Ordinary
Severfield Europe B.V.[ii]	Netherlands	Ordinary
Severfield (Nuclear & Infrastructure) Limited (formerly Harry Peers Steelwork Limited)	England and Wales	Ordinary
Severfield Reeve International Limited	England and Wales	Ordinary
Severfield Mauritius Limited[iii]	Mauritius	Ordinary
DAM Structures Limited	England and Wales	Ordinary
100% owned by 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 2021.

** Dormant company.

‡ Unless otherwise stated, the registered office address for each of the above is Severs House, Dalton Airfield Industrial Estate, Dalton, Thirsk, North Yorkshire YO†7 3JN.

† Companies with a reporting period ended 31 March 2022.

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

	2022 £000	2021 £000
Investment in subsidiaries	**119,671**	119,783
Investment in joint ventures	**32,927**	32,927
	152,598	152,710

NOTES TO THE COMPANY FINANCIAL STATEMENTS

YEAR ENDED 26 MARCH 2022

3. Investments continued

Investment in subsidiaries

	£000
Cost	
At 28 March 2021	139,983
Liquidated entities	(112)
At 26 March 2022	**139,871**
Provision for impairment	
At 28 March 2021 and 26 March 2022	**(20,200)**
Net book value	
At 26 March 2022	**119,671**
At 27 March 2021	119,783

Investment in joint ventures

In 2008 a formal agreement was signed in India with JSW Building Systems Limited (a subsidiary of JSW Steel Limited of India) to form a 50/50 joint venture, JSW Severfield Structures Limited, to create a structural steelwork business in Bellary and Mumbai, India, serving primarily the Indian market.

JSW Severfield Structures Limited is registered in India. During a prior year, the Company invested a further £4,229,000 in the joint venture to fund the expansion of the production facility in Bellary. During a prior year, the Company invested £5,506,000 in JSSL to support the full repayment of the joint venture's term debt of c.£11,000,000 in June 2017. The investment is carried in Severfield Mauritius Limited, a wholly owned subsidiary of the Company.

The Company invested £2,444,000 in CMF Limited during the prior year to fund the expansion of the existing production facilities.

4. Debtors – amounts falling due within one year

Current assets	2022 £000	2021 £000
Other debtors	2,502	1,979
Amounts owed by subsidiary undertakings	–	79,514
Amounts owed by JVs and associates	106	48
Corporation tax recoverable	9,725	8,840
	12,333	90,381

Non-current assets	2022 £000	2021 £000
Amounts owed by subsidiary undertakings	68,977	–
	68,977	–

Amounts owed by subsidiary undertakings are non-interest bearing and repayable on demand. During the year, the directors reviewed the expectation of the timing of settlement of these balances and accordingly reclassified them to non-current assets. No impairment of the receivable was recorded at 26 March 2022 or 27 March 2021.

5. Creditors – amounts falling due within one year

Current liabilities	**2022 £000**	2021 £000
Other creditors and accruals	**18,544**	6,948
Amounts owed to subsidiary undertakings	**104,691**	120,128
Amounts owed to JVs and associates	**113**	473
Deferred tax liability (note 6)	**6,555**	5,053
	129,903	132,602

Non-current liabilities	**2022 £000**	2021 £000
Other creditors and accruals	**3,081**	10,639
	3,081	10,639

6. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period.

	2022 £000	2021 £000
Deferred tax liabilities	**(6,852)**	(5,236)
Deferred tax assets	**297**	183
	(6,555)	(5,053)

Deferred tax – movement for the year

	Excess capital allowances £000	Other temporary differences £000	Total £000
At 29 March 2020	(5,285)	174	(5,111)
Current year credit	49	9	58
At 27 March 2021	(5,236)	183	(5,053)
Current year charge	(1,616)	114	(1,502)
At 26 March 2022	**(6,852)**	**297**	**(6,555)**

7. Contingent liabilities

The Company has provided an unlimited multilateral guarantee to secure any bank overdrafts and loans of all other Group companies. At 26 March 2022 these amounted to £nil (2021: £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 (Products & Processing) Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
YO7 3JN

DAM Structures Limited
Severs House
Dalton Airfield Industrial Estate
Dalton, Thirsk
North Yorkshire
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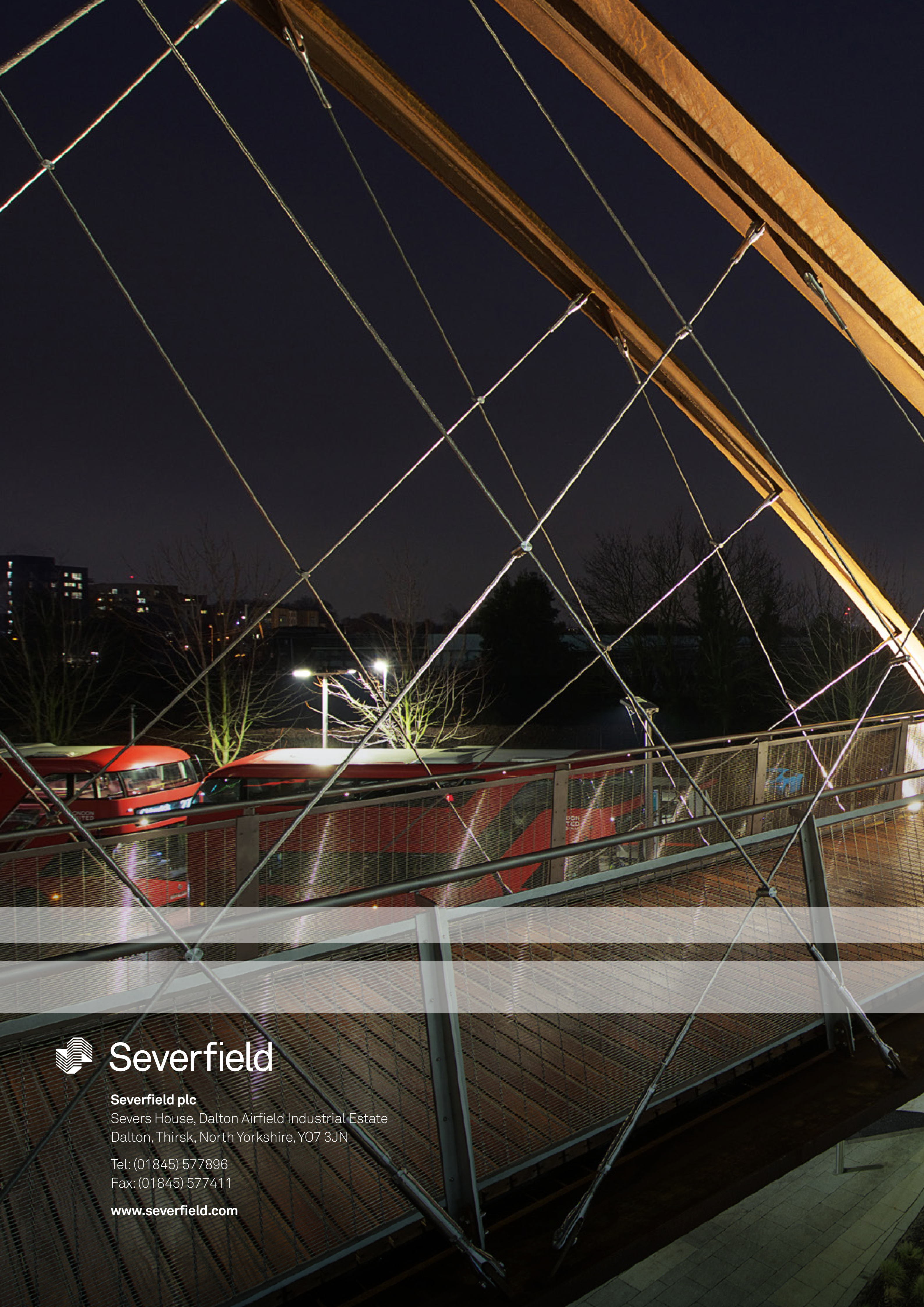

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